

WERABE UNIVERSITY

COLLEGE OF AGRICULTRA AND NATURAL RESOURCE

DEPARTMENT OF ARGICULTURAL ECONOMICS

DETERMINANTS OF LOAN REPAYMENT PERFORMANCE OF MICRO AND SMALL ENTERPRISES: THE CASE OF OMO BANK IN SILTE ZONE BRANCH OF CENTRAL ETHIOPIA REGION

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NOVEMBER, 2024

WERABE, ETHIOPIA

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DECLARATION

I, the under signed student of Werabe University, Post Graduate Program in Agricultural Economics, declared that this Master Thesis is my original work and it has not been presented in any MSc thesis or any other purpose at any University.

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ADVISORS APPROVAL SHEET
CERTIFICATE

This is to certify that the theses research, entitled “Determinants of Loan Repayment Performance of Micro and Small Enterprises: The Case of OMO Branch in Silte Zone Central Ethiopia Region.” submitted to the Department of Agricultural Economics, College of Agriculture and Natural Resource, Werabe University, in partial fulfillment of the requirements for the award of the Degree of Master of Agricultural Economics is a record of original research work done by Abdureham Workicho during the period 2015-2016(E.C) under my supervision and guidance and the thesis has not formed the basis for the award of any Degree / Diploma / Associate ship/ Fellowship or other similar titles of any candidate of any University and it complies with the regulation and accepted standards of the university.

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As members of the Board of Examiners of the final Master's degree open defense, we certify that we have read and evaluated the thesis prepared by **Abdurehman Workicho** under the title **"determinants of loan repayment performance of micro and small enterprises: the case of OMO bank in silte zone branch of central Ethiopia region"** and recommend that it be accepted as fulfilling the thesis requirement for the degree of **Master of Science in Agricultural Economics** with **Specialization in Agricultural Economics.**

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ABBREVIATIONS AND ACRONYMS

EEA	Ethiopian Economic Association
GTP	Growth and Transformation Plan
LRP	Loan Repayment Performance
MSEs	Micro and Small Enterprise
NWZ-ASCI	North Wollo Zone Amhara Saving and Credit Institution
NWZEDO	North Wollo Zone Enterprise Development Office
OCSSC	Oromia Credit and Saving Share Company

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ABSTRACT

This study explores the determinants of loan repayment performance of micro and small enterprises the case of OMO Bank in Silte zone branch, central Ethiopia region, specifically focusing on MSEs borrowers at OMO Bank. Employing a mixed-methods approach that integrates both qualitative and quantitative data, the research examines the occurrence of loan defaults, identifies key determinants of repayment performance, and assesses the challenges encountered by these enterprises. A multi-stage sampling technique was employed, selecting a sample size of 384 MSEs across various sectors, including manufacturing, agriculture, and services. Data analysis involved descriptive statistics such as means, standard deviations and percentages to interpret the survey results. Chi-square tests were conducted to compare defaulters and non-defaulters based on various explanatory variables. To investigate the factors affecting loan repayment performance, a Tobit model was utilized for empirical analysis. The findings indicate that several factors significantly influence loan repayment performance among micro and small enterprises (MSEs), including the education level of managers, collateral requirements, loan utilization, managers' financial literacy, distance to lending institutions, and loan size. The study revealed the challenges that faced MSE includes market-related issues like competition, demand fluctuations, technological constraints, and infrastructure issues, hindering business competitiveness and operational efficiency. To address these challenges, it is recommended that stakeholders enhance managerial training focused on financial management and business operations; improve local infrastructure to facilitate better access to utilities; establish market support initiatives to help MSEs navigate competition and demand; implement comprehensive financial literacy programs; design tailored lending solutions that consider the unique needs of MSEs; promote access to modern technology along with necessary training; and strengthen support networks involving local business associations and government agencies to provide ongoing assistance and resources.

***Keywords**: Repayment Performance, Micro and Small Enterprises, Silte Zone, OMO bank*

1. INTRODUCTION

1.1 Background of the Study

Micro and small enterprises are recognized as crucial engines of growth and development in Africa, playing a pivotal role in transitioning from traditional to modern industrial sectors. Their impact on employment generation, poverty alleviation, and economic diversification is undeniable (Drbie and Kassahun, 2014). Micro and small enterprises are essential sources of employment creation, driving income distribution, job opportunities, and industrial growth in both developing and developed countries (Zemenu and Mohammed, 2014).

However, these enterprises face significant challenges, particularly in developing nations like Ethiopia. Limited financial resources, high service costs, and geographical constraints often limit access to financial services (Ulwodi and Muriu, 2017). This lack of financial inclusion poses a significant barrier to the growth and sustainability of micro and small enterprises.

The financial gap faced by Micro, Small, and Medium Enterprises (MMSEs) in developing nations is substantial, estimated at around $5 trillion, exceeding current lending levels (Moritán, 2020). This financial deficit significantly hinders the establishment and performance of these enterprises. Financially constrained firms in Sub-Saharan Africa often exhibit lower capital productivity and efficiency compared to their unconstrained counterparts (Amos and Zanhouo, 2019).

Ethiopia's Micro-Finance Institutions (MFIs) play a crucial role in mitigating these challenges, offering financial services to those excluded from formal financial institutions. Ethiopian MFIs demonstrate high operational self-sufficiency (Wassie *et al*., 2019), highlighting their critical role in financial accessibility and sustainability. Saving and credit cooperatives further contribute to financial inclusion by providing services to impoverished households (Henock, 2019).

The inability of micro and small enterprises to access capital and the high interest rates they face can be attributed, in part, to inadequate or absent accounting records. This hinders financial institutions' ability to accurately assess risks and returns, leading to reluctance to lend to MSEs (Mosisa, 2011). The absence of reliable financial records often compels MSEs to rely on high-interest loans from middlemen or moneylenders, creating financial instability and increasing the

risk of business failure.

The challenges facing Micro and Small Enterprises (MSEs) in Ethiopia due to limited access to finance are significant. Microfinance Institutions (MFIs) play a critical role in bridging this gap by offering loans without the need for traditional collateral, empowering both urban and rural populations who otherwise struggle to access credit (Wolday, 2005; Micheal, 2006).

Microfinance institutions (MFIs) play a vital role in supporting economic development, especially for marginalized groups, but their sustainability relies heavily on maintaining high loan repayment rates (Addisu, 2013). However, the issue of loan defaults poses a significant challenge to the operations of MFIs, hindering their effectiveness in providing financial services (Godqin, 2004).

1.2 Statement of the Problem

The Ethiopian Growth and Transformation Plan (GTP, 2011) recognizes the critical role of providing access to finance for micro and small enterprises as a cornerstone strategy for breaking the cycle of poverty. However, the success of financial institutions in facilitating credit access and supporting poverty alleviation goals is intrinsically linked to the repayment performance of borrowers. Effective loan repayment allows institutions to reduce interest rates and processing costs, expanding the availability of credit and decreasing the reliance on subsidies, ultimately promoting institutional sustainability (Wolday, 2005). Therefore, understanding and addressing the factors influencing loan repayment performance is crucial for expanding credit availability across economic sectors and ensuring the long-term viability of Microfinance Institutions (MFIs).

Despite government efforts to enhance access to finance for Micro and Small Enterprises (MSEs) through initiatives like the youth revolving fund (FDRE, 2017), various challenges persist. High matching funds, liquidity requirements, and the lack of collateral, complex loan procedures, high interest rates, and difficulties in forming groups continue to hinder MSEs' ability to secure financing (Sissay, 2016; Lakew, 2018).

Previous research has identified a complex web of factors that contribute to loan default rates, including delays in loan disbursement, inadequate loan sizes, loan diversions to unproductive ventures, inappropriate repayment periods, family size, lack of training services, and insufficient supervision (Chali *et al*., 2016). Additionally, demographic, loan, and firm characteristics play

significant roles, such as gender, experience, marketing skills, financial literacy, and business planning (Dire, 2018).

Researchers have extensively studied various factors influencing loan repayment performance among MSEs, including age, loan amount, loan duration, loan type, gender, repayment frequency, additional borrowings, net income, marital status, interest rates, level of education, and the nature and duration of the customer's relationship with the bank (Ochieng, 2015). The factors contributing to loan defaulting include issues such as misallocation of funds for non-income-generating purposes, operational setbacks, and inadequate monitoring and supervision practices (Dangisso and Deyganto, 2020).

In Ethiopia, the reluctance of financial institutions to provide credit to emerging enterprises is exacerbated by the defaulting tendencies of Micro and Small Enterprises (MSEs) (Nega and Hussein, 2016). This reluctance is further fueled by factors such as inconvenient loan repayment schedules, inadequate financial literacy, and insufficient planning (Alemu, 2018). Numerous studies (Geleta, 2018; Borena and Waktola, 2019; Kebede and Tafese, 2016; Addae-Korankye, 2014) have highlighted the intricate web of factors influencing loan repayment performance by MSEs in Ethiopia, emphasizing the need for a nuanced understanding of specific contextual factors.

In the Silte Zone of Central Ethiopia, Omo Bank (OB) serves as the sole microfinance entity. However, in the fiscal year 2022/23, the bank reported a concerning loan default rate of 77%, highlighting the urgent need to address the factors contributing to these defaults (Silte Zone Omo Bank, 2023).

This research aims to bridge these gaps by investigating the determinants of loan repayment performance of MSEs in the Silte Zone, specifically focusing on identifying the specific factors that have not been adequately addressed in previous research within this region. By understanding the root causes of loan defaults, the study seeks to provide valuable insights that can inform the development of more effective risk management practices, loan control systems, and targeted interventions to improve loan repayment performance and enhance the sustainability of microfinance in the Silte Zone.

1.3 Objectives of the Study

1.3.1. General objective of the study

The general objective of the study is to examine the determinants of loan repayment performance of micro and small enterprises the case of OMO Bank in Silte zone, central Ethiopia region

1.3.2. Specific objectives of the study

1. To examine the extent of default in the loan repayment of micro and small enterprises borrowers in the study area;
2. To identify factors that affects the loan repayment performance of micro and small enterprises in the study area; and
3. To assess the challenges that facing small and micro Scale Enterprises in the study area.

1.4 Research Questions

The research questions to be answered with this research are as follows:

1. What is the extent of the loan repayment performance of micro and small enterprise borrowers in the study area?
2. What are the factors that affect the loan repayment performance of micro and small enterprise borrowers in the study area?
3. What are the main challenges/problems facing small and micro scale Enterprises in in the study area?

1.5 Scope and Limitations of the Study

The study examines loan repayment performance among micro and small enterprises in the Silte Zone of Central Ethiopia by taking four towns, focusing on factors like loan size, business profitability, and borrower characteristics. Cross sectional data was collected through surveys and insights from lenders and financial institutions from 384 randomly selected enterprises. The findings may not be generalizable to other regions due to variations in socioeconomic conditions, institutional structures, and regulatory frameworks.

The study's limitations include data availability, access to confidential financial information, participant willingness, and external factors like economic fluctuations, government policies, or unforeseen events that could affect loan repayment performance in the Silte Zone and selected micro and small enterprises.

1.6 Significance of the Study

The study will provide valuable insights into the factors that influence the loan repayment performance of micro and small enterprises in the Silte Zone. This knowledge can help lending institutions like Omo Bank to develop targeted strategies to improve loan repayment rates.

By examining the determinants of loan repayment performance, the study can contribute to promoting financial inclusion for micro and small enterprises in the region. This, in turn, can support economic growth and development at the grassroots level. The findings of the study can inform policy decisions related to small business financing and support mechanisms in Ethiopia. Policymakers can use this information to design effective policies and programs to promote sustainable lending practices and financial stability. Understanding the factors that affect loan repayment performance can help micro and small enterprises in the Silte Zone to improve their financial management practices. This can lead to increased business sustainability and growth opportunities for these enterprises. The study can contribute to the existing body of knowledge on microfinance and small business financing in Ethiopia. It can serve as a reference point for future research and studies on loan repayment performance and factors influencing financial management among small enterprises.

1.7 Organization of the Thesis

This thesis is structured as follows: Chapter one discuses about background, statement of the problem, objective, significance of the study and scope and limitation of the research. Chapter two provides a comprehensive review of relevant theoretical and empirical literature related to loan repayment performance in micro and small enterprises. Chapter three outlines the research methodology employed, including the data collection methods, sampling techniques, and statistical analysis used. Chapter four presents the data analysis and interpretation of the results, revealing the key determinants of loan repayment performance. Finally, chapter five draws conclusions from the study, highlighting the significance of the findings and suggesting recommendations for improving loan repayment performance among MSEs in Silte Zone, Central Ethiopia

2. REVIEW OF LITERATURE

2.1. Theoretical Literature Review

2.1.2 Definitions and concepts

The Definition of Micro and Small Enterprises (MSEs) a definition of MSEs in the developed world would differ from how MSEs are defined in the world. Micro and small enterprises have different meaning from country to country, or there is no commonly accepted definition. According to Shantanu and Londhe (2014) Microenterprises can be defined differently, depending on country's stage of development, policy objectives, and administration. In the majority of countries, MSEs are defined as firms employing between 10 and 250 people. Businesses with up to 10 employees are usually discussed to as micro firms. According to the Prenaj and Ismajli (2018) study the Definition of small and micro enterprises according to the European Union, the classification of micro enterprises are; medium enterprises includes those enterprises employing fewer than 250 employees, with annual revenue of not more than EUR 43 million.

Kinde (2012) Micro and small business is an entity that is privately owned and operated, with a small number of employees and relatively low volume of sales. Small businesses are privately owned corporations, partnerships /sole proprietorships. There is common definition of small scale enterprises as small differs by country and industry. Micro Enterprise under the industry sector (manufacturing, construction and mining) is an enterprise operates with less than or equal to 5 people including the owner and/or their total asset is not exceeding Birr 100,000.Under service sector (retailer, transport, hotel and Tourism, Information Communication Technology (ICT) and maintenance service).

Micro enterprise are an enterprise operating with less than or equal to 5 persons including the owner of the enterprise and/or the values of total asset is not exceeding Birr 50,000. Small Enterprises in the industrial sectors are an enterprise operating with 6-30 persons and/or with a paid up capital of total asset Birr 100,000 and not exceeding Birr 1.5 million. Similarly, in the service sector, small enterprises are an enterprise operating with 6-30 persons and/or with a paid up capital of total asset Birr 50,000 and not exceeding Birr 500,000 (FMSEDA 2010).

2.1.3 Theories of microfinance

There are a number of theories that try to explain the concept of microfinance and its role in improving the lives of poor people of the whole world. Governments and development partners have invested heavily in these economies to alleviate poverty which is an obstacle to the development of the financial markets and empowering the citizenry economically. There are different types of theory such as neo-classical growth theory, welfarist theory, institutions theory, empowerment theory and uniting theory (Todaro *et al*, 2003; Robinson, 2001; Elsa and Stina, 2006; Cheston and Kuhn, 2002, cited in Omoro and Omwange, 2013).

Out of above-mentioned theories to give some points in uniting theory, therefore it supports this study. According to (Ghatak and Guinnane, 1999) uniting theory was important for joint liability in the repayments of microfinance loans. The aim of this theory is to improve repayment rates and the welfare of credit-constrained borrowers. In joint liability, when one borrower cannot repay a loan, group members are responsible to repay for one of their members if he or she defaults to pay for his or her monthly installment. Borrowers believe that if a group member defaults, the whole group will not be allowed to access future loans even if the lending contract does not specify this punishment.

2.1.4 The role of MSEs in poverty reduction and employment creation in Ethiopia

According to Yirgalem (2018) Small and Micro enterprise has most important role in economic growth of both developed and developing countries seriously by helping poor people with creation of job, and changing their bad standard of living in their day to day economic activities. Moreover, the growing of these economic activities in different sector such as industry, Service and agriculture has high contribution for GDP of the country. The role of MSEs are not only income and employment creation.

Tadesse (2010) study the MSEs most reliable economic development and growth, poverty reduction, income generation and employment creation and without MSEs no nation can achieve valuable economic growth and reduction of poverty. The MSEs have great contribution in reducing unemployment and in providing income to those owners and employees of MSEs.

Sartie (2017) Micro and Small enterprises play significant roles in the creations of employment

opportunities and generations of income for quite a large proportion of the population. The findings of this research show that the MSEs have great roles in industrial development by playing a base position and sources of inputs for medium and large industries. There are different constraints experienced by MSEs are irregular and inconsistent supply of raw materials and shortage of suitable working premises. Lack of working premises was also found to present difficulties for the informal sector operators which faced with insufficient capital, was often hindered from the start. The problems of raw material shortages, effective marketing practices and lack of working capital faced by MSEs have become difficulties for the expansion of the sector.

According to Shide (2012), the Creation, survival and growth of small and medium enterprises in most African countries is not out of challenges. Among the most significant impediments that face Micro and Small enterprises in Africa, He has taken example as: inadequate accesses to financing, weak technical capacities, poor market access, lack of favorable policy environment is the most significant impediments that face MSEs, and he has also stated that the graduation of MSEs enterprises to a more growth oriented middle and large industries are minimal.

Micro enterprise has major role in economic growth of both developed and developing countries critically by helping poor people with creation of job, and changing their worst standard of living in their day to day economic activities. Moreover, the cumulative of these economic activities in different sector such as industry, service and agriculture has high contribution for GNP and GDP of the country. Similarly, in Ethiopia micro enterprises play a key role in poverty alleviation, economic growth, and job creation. They are vital in dispersing new industries to the countryside and stimulating gainful employment. MSEs are more likely to be labor-intensive. Thus, they generate jobs in the locality where they are situated. In this sense, they bring about a more balanced economic growth and equity in income distribution. In addition, MSE play an important part in the provision of services in the community. They can make an important contribution to regional development programs (Million, 2014).

2.1.5 Characteristics of microfinance

Microfinance gives access to financial services to low-income people, who wish to access money for starting or raising an income generation activity. The individual loans and savings of the poor

clients are small. Microfinance came into being from the appreciation that micro-entrepreneurs and some poorer clients cannot have access to borrow from banks, that is, they can repay, both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs. Microfinance as an institution has created financial products and services that together have enabled low-income people to become clients of a banking intermediary. The characteristics of microfinance products include (Murray and Boros, 2002).

- ❖ Small amounts of loans and savings.
- ❖ Short- period loans (up to one year term).
- ❖ Payment schedules attribute frequent installments or frequent deposits.
- ❖ Payments (Installments) made up from both principal and interest.
- ❖ Higher interest rates on credit (higher than commercial bank rates)
- ❖ Easy access to the microfinance intermediary saves the time and money of the client and permits the intermediary to have a better idea about the clients' financial and social status.
- ❖ simple application procedure
- ❖ Short processing periods (between the completion of the application and the disbursement of the loan)
- ❖ The clients who pay on time become eligible for repeat loans with higher amounts.
- ❖ No collateral is required contrary to formal banking practices. Instead of collateral, microfinance intermediaries use alternative methods, like, the assessments of clients‟ repayment potential by running cash flow analyses, which is based on the stream of cash flows, generated by the activities for which loans are taken.

2.2 Empirical Reviews

2.2.1 Determinants of loan repayment performance of micro and small enterprise

Nancy and Mohamed (2014) in their study on Determinants of Loan Repayment in Small Scale Enterprises in Developing Countries analyzed and identified the determinants that influence the loan repayment in developing country. They found out those personal characteristics such as Education level, family size, amount of loan applied and business experience of the respondents have a positive relationship to loan repayment. Age, interest rate and change in gender had an

inverse relationship to loan repayment.

The research conducted by Salem (2016) was estimated econometric model known as two limit tobit regression model of the maximum likelihood and the marginal effects was used for Determinants of Loan Repayment Performance of the Case of Micro and Small Enterprises in Dire Dawa Administration. She selected explanatory variables by broadly categorizing under Individual entrepreneur characteristics, loan specific characteristics and business related factors. A total of 12 explanatory variables were considered in the econometric model out of which five variables were found to significantly influence the loan repayment performance of MSE borrowers. These were repayment period, efficient loan size, follow up and supervision, business sector and business experience. Of which, repayment period and efficient loan size influence loan repayment performance at 10% significant level while follow up and supervision, business sector, and business experience influence repayment performance at 1% significant level.

Kebede, *et al* (2016) studied on the factors affecting loan repayment performance of small scale enterprises financed by micro finance institutions: study on private borrowers around Wolaita and Dawuro Zone included a total of 15 explanatory variables were considered in their econometric model of two limit Tobit model. The independent variable includes Sex of household, Educational status of Household, Marital status of Household, Age of household, farming experience, household Size, dependency ratio, Tropical livestock unit, Off Farm income, Value of equipment, receiving training, Lend in group, Repayment suitability, Loan amount and Loan frequency. Sex of household revealed that from their respective sex composition, males' respondents were found having more repayment performance than female respondents, Education level was found to be positively and significantly influencing loan repayment, Number of dependents within and out house hold this variable was found to be determine negatively and significantly, Tropical livestock unit total livestock ownership is positively related to the dependent Variable, Value of equipment, repayment suitability strong and significant association between repayment period and dependent variable.

Tadele (2014), estimated an econometric model known as binary logistic model analysis on determinants of microfinance loan repayment performance: case of omo microfinance in Kaffa Zone. In his model analysis, he emphasized considering the combined effect of variables between

defaulters and non-defaulters' borrowers from Omo microfinance in Kaffa Zone, Ethiopia. The research includes a total of 12 explanatory variables considered in the economic model. Out of these eight of the variables were found to be significant at 5% significant level, while the remaining four were not significant in explaining the variations in the dependent variable. Age, sex, educational level, method of lending, other source of income before loan, suitability of installments period, loan size and timeliness of loan release included in the model were found to be have positive and statistically significant. However, the remaining four explanatory variables namely, family size, residence of borrower, distance from institution and frequency of collection had no significant effect on the probability of being defaulter. Hence, the study conducted by Tadele (2014) indicated either performance or non-performance of borrowers from Omo microfinance in Kaffa zone, and he was not included the variable that related with this study and MSE's sector as determinants of loan repayment.

The idea financial skill and planning is specifically related with financial capability, financial literacy, financial education of individuals and firms. In case of this study, the capability of MSEs in keeping, recording and reporting of their financial data were low because the lack of loan repayment was a result of lack of financial skill and planning in the study area, Lack of performance monitoring (follow up or supervision).

According to Ameyaw-Amankwah (2011), Loan repayments should be monitored and whenever a customer defaults action should be taken. Thus, banks should avoid loans to risky customers, monitor loan repayments and renegotiate loans when customers get into difficulties. Inversely, in this study researcher overlooks good governance is vital for the development of a healthy and competitive environment of MSEs with established rules and procedures to manage and run the enterprise.

The role of Micro and Small Enterprises in Ethiopia is indispensable in poverty reduction through employment generation since national MSEs Development Strategy was formulated in 1997, and government strongly believes that MSEs are the right solution to reduce urban unemployment and poverty. However, there are many critical challenges that hamper the growth and development of MSEs in Ethiopia.

According to Million (2012), the loan repayment is influenced both directly and indirectly by

various factors Such as Government Policy, institutional and environmental factors and demography.

According to EEA (2015), initial capital for MSEs emanated from diverse sources, the major one being loans. Since most MSEs have Lack of the initial start-up capital, facilitating access to loan would definitely help to establish new MSEs and address working capital problems of existing ones. All those MSEs which have accessed loans for their businesses might not repay their debts as scheduled. Several factors have been identified as reason for lack of loan repayment such as individual characteristics, loan characteristics, and firm characteristics.

Mukono (2015) argued that the firm characteristics (type of firm, firm location, type of business, asset ownership) and borrower characteristics are positively influence loan repayment by small and medium enterprises. While loan characteristics (Interest rate, Penalty for lateness, Credit analysis procedure, Lending policies, etc.) are negatively affect the loan repayment negatively loan repayment by MSEs.

Ochieng (2015) analyzed loan repayment and credit management of Small, Micro and Medium Enterprises in a Kenyan financial institution. Several factors were analyzed to determine their relationship and impact on default. These factors included age, period and type of relationship of the customer with the bank (personal, business, old or new to bank customers), loan term, loan product, gender, repayment amount, loan amount, other borrowing, net income, interest rate , marital status and level of education. .

According to Abay *et al.* (2014) the External Factors Affecting the Growth of Micro and Small Enterprises (MSEs) in Shire Indasselassie Town, Tigray, the access to credit from formal financial sources, access to infrastructure and access to working promises are significantly affect the MSEs and the role of MSEs are not only income and employment creation but also breeding ground for businesspersons has higher employment capacity and not capital intensive and highly competitive , flexible and innovative.

Gutu, Mulugeta and Birlie (2017) studied on Determinant Factors Affecting Loan Repayment Performance of Women Borrowers from Micro Finance Institutions in Southwest Ethiopia:

Evidence from Four Woredas around Gilgel Gibe Hydroelectric Power Dams by using binary logistic regression model stated that the sex of the borrowers negatively and training and better supervision is positive predictions of borrower's loan repayments .Micro finance has working for the beneficiary of women's must and essential to give attention on the specified problems. Most of the time women have become defaulter when women became defaulter they pay back the loan by selling the resource of household to pay or by borrowing from another micro finance or individuals, that interest rate is greater than microfinance. At the end of the period leads the life of the whole family from hope to worthy than before.

Borena and Waktola (2019) intended to analyze the determinant of loan repayment performance of Micro and smalls sectors a case of Oromia Credit and Saving Share Company operating in the East Wollega Zone. The study showed that group leaders education level, group leaders experience in similar business, the enterprises beginning capital, loan repayment period, loan follow up, Training offered by the loan officers of OCSSCO and access to output market for the enterprises finished products were found to positively influence while the enterprises group size, additional loan they received, the problem of financial statement recording experience in the business, problem of information confession among members, loan interest rate, problem of power interruption and shortage of water supply around the enterprise working area have negatively influenced the group loan repayment performance of MSEs sectors in the study area.

2.2.2. Challenges facing small and micro scale enterprises in developing countries

There are so many challenges MSEs in their activities starting from initial new creating to all activities including financial problems that determine the sustainability of the MSEs. According to the Victoria (2014) study in Lusaka MSEs faced with internal and external constraints to growth, such as lack access of finance, excessive competition, vulnerability to crime, lack of market demand, high family demand, cost of stock, administrative corruption, constrictive import/export regulations, uncertainty concerning to business conditions and legal as well as regulatory constraints.

According to Yednekachew (2016), the MSEs were affected by environmental and internal factors. Environmental factor includes social, economic, cultural, political, legal and technological

factors, and internal factors also affect the performance of MSEs, which are related to the person's individual attitude, training and technical know-how. He identified many problems that confronted MSEs in Ethiopia similar with other developing countries like unfavorable legal and regulatory environment, discriminatory regulatory practices; lack of access to markets, business information; lack of business premises at affordable rent; low ability to acquire skills and managerial expertise; low access to appropriate technology, poor access to quality business infrastructure, financial problems, lack of qualified employees, lack of proper financial records, inadequate management and business skill, marketing problems, lack of work premises , low level of provision and interest for trainings and workshops. The study suggests constraints confirm with other developing countries' especially experiences of Sub-Saharan countries in which the major common constraints of MSEs are lack of financial support, poor management, corruption, lack of training and experience, poor infrastructural availability, insufficient profits and low demand for product and service. The researcher also highlight that in the past decades the focus of Ethiopian government was mainly on large organizations ,but the recent are towards wave of private sector development initiatives ,and it is shifted the policy efforts to MSEs.

According to the Bouazza *et al* (2015), Studies in Algeria the vital role of MSEs in building a competitive private sector and contributing significantly to employment creation, innovation, and economic development are facing more challenges around the world in general and in developing countries in particular. Algerian MSEs are challenged arise from the interaction between external and internal factors. The unfair competition from the informal sector, cumbersome and costly bureaucratic procedures, burdensome laws, policies and regulations, an inefficient tax system, a lack of access to industrial real estate, a lack of access to external financing and low human resources capacities are the key business environmental factors affecting Algerian MSEs. Conversely, entrepreneurial characteristics, low managerial capacities, lack of marketing skills, and low technological capacities are the main internal factors responsible for the unstable and limited growth of MSEs in Algeria.

According to Asma (2015), the important factor contributing to success or failure of MSEs is marketing skills. There is extensive evidence to prove that marketing plays a significant role in the success of MSEs. Marketing is also one of the biggest challenges MSEs face in their business

operations. MSEs in Algeria are weak in terms of market research and have inadequate marketing skills because most Algerian MSEs are owned and managed by one person. Such entrepreneurs take care of all the managerial functions of the enterprise and lack the time and funds to invest in research to establish their target market or identify customer trends. The constraint micro-small business face is inadequate markets access due to unstable market value chains and over reliance on saturated and localized markets

According to Assefa, Zerfu, and Tekle (2014), key constraints to MSE growth in Ethiopia were access to finance, collateral challenges, marketing challenges, working and sales space, capital goods and machinery challenges, licensing and registration challenges, attitudinal challenges, institutional coordination problem. Despite the contribution of MSEs is the pillar in poverty reduction, job creation, and sustainable economic growth of both in developed and developing nation, there are numerous challenges face in their activities. As mentioned in above paragraphs by different study such problem open door for failure of the business, and which are input factor for lack of successful loan repayment since this unfavorable business environment creates instability of MSE's business activities.

According to Kefale and Chinnan (2012), the most prevalent areas in which MSE have problems are sales or marketing, human resource management, and general management; they specifically reported promotion, marketing research and training as the most frequently encountered problems. Marketing problem has been widely acknowledged as being the most important of all activities and critical for the survival and growth of MSEs.

Micro and small enterprises in Ethiopia faced various marketing problems. There is lack of product diversity and as a result similar products are overcrowding the market. In addition to this certain micro and small enterprises lack of skill to modify their products and they have lack of sufficient range of product designs (Mezgebe, 2012) and planning Financial capability is a broad concept, encompassing people's knowledge and skills to understand their own financial circumstances, along with the motivation to take action. Financially capable consumers plan ahead, find and use information, know when to seek advice and can understand and act on this advice, leading to greater participation in the financial services market (Sherrard, 2010).

MSEs Lack of access to capital and high interest rates charges are partially the result of

incomplete (or no) accounting records, and the inefficient use of accounting information. Poor record keeping and accounting information make it difficult for financial institutions to evaluate potential risks and returns, making them unwilling to lend to MSEs. And, MSEs pay high interest rates or fall back on the middlemen or moneylenders, whose loans are costly and often restrictive. The misuse and inaccuracy of accounting information causes MSEs to inaccurately assess their financial situation, and make poor financial decisions, as well as leads them to face with the high failure rate (Mosisa, 2011).

According to research report conducted by Assefa, and Tekle (2014), the key constraints to MSE growth are access to finance, collateral challenges, Marketing Challenges, Working and Sales Space Constraints, Capital goods and Machinery challenges, Licensing and registration challenges, Attitudinal Challenges, and Institutional Coordination Problem in Ethiopia. Moreover, Drbie ,and Kassahun (2013) studied revealed that Lack of Adequate Finance, Lack of Working Premises, Lack of Managerial and Technical Skills, Lack of Adequate Market, Inadequacy of Infrastructure Facilities, Erratic Supply of Raw Materials; Regulatory Constraints are Deterrents to the Success of Micro and Small Enterprises.

2.3. Conceptual Framework of the Study

This study employs a conceptual framework to illustrate the hypothesized relationships between independent variables and the dependent variable, loan repayment performance. The framework posits that various factors, including borrower characteristics, loan characteristics, business environment factors, and institutional factors, influence the repayment performance of micro and small-scale enterprise borrowers of the MFI institution under investigation.

The framework serves as a visual representation of the theoretical underpinnings of the study, guiding the analysis and interpretation of the data. It highlights the interconnectedness of various factors and their potential influence on loan repayment performance, providing a roadmap for understanding the complex interplay of variables that determine the success or failure of loan repayment.

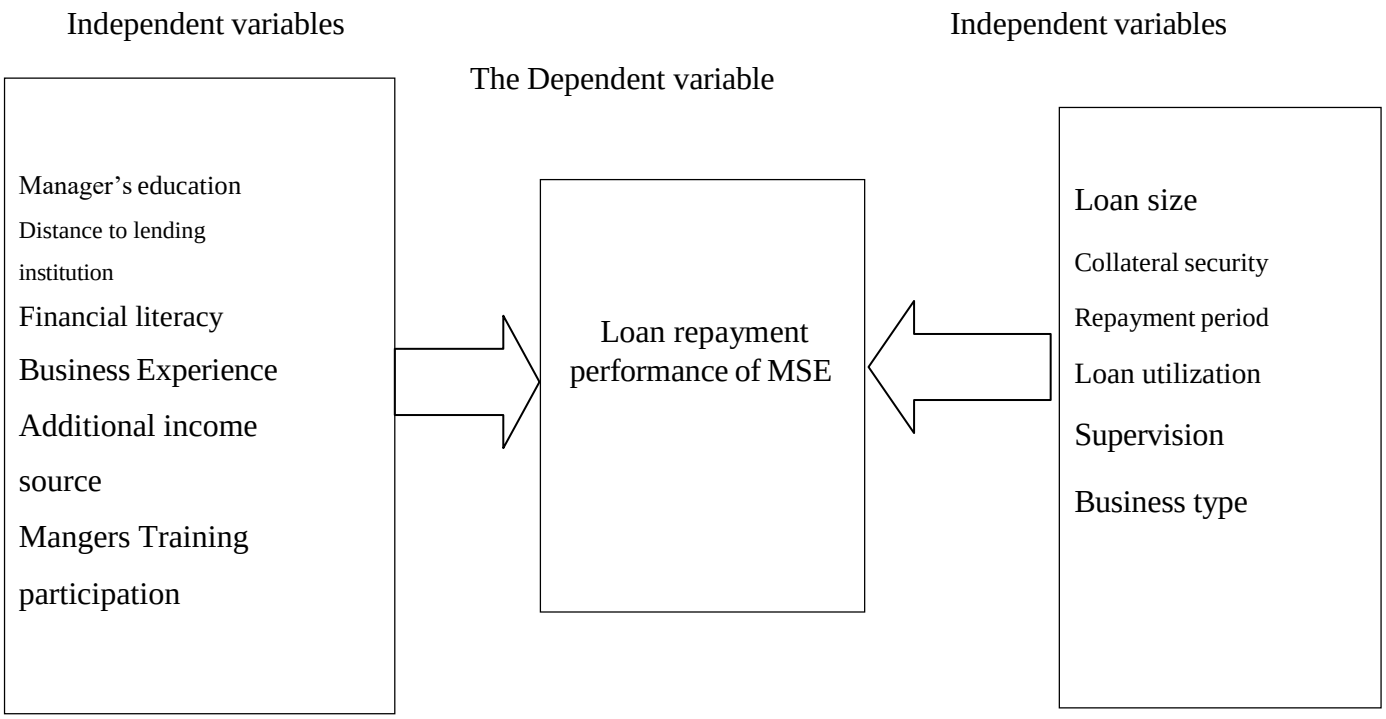


Figure 1: Conceptual farmworker

Source: Own construction from literature

3. METHODOLOGY

3.1. Description of the Study Area

Siltie Zone, situated in the Central Ethiopia region, is bordered by Alaba Zone to the south, Hadiya Zone to the southwest, Gurage Zone to the north, and the Oromia Region to the east. According to the 2007 census conducted by the Central Statistical Agency of Ethiopia (CSA), the zone has a total population of 750,398, with a gender distribution of 48.52% male and 51.48% female. The zone is comprised of ten districts: Alicho Werero, Dalocha, Lanfro, Silti, Misrak Silti, Mirab Azernet Berbere, Misrak Azernet Bereber, Sankura, Wulbareg, and Mito. In addition, there are five town administrations: Alem Gebeya, Dalocha, Kibet, Tora, and Werabe.

Agro-ecologically, Siltie Zone encompasses lowland/kola (5%), temperate/weina dega (74.4%), and highland/dega (20.6%) areas, making it suitable for diverse agricultural production. The primary sources of income in the districts are crop, chat, and livestock production. Key crops cultivated for both food consumption and income generation include enset, wheat, barley, maize, beans, peas, haricot beans, beetroot, potatoes, tomatoes, peppers, onions, garlic, cabbage, and various garden spices. Oxen and sheep fattening are also common practices, serving as an alternative source of income for farmers in the zone (Siltie Zone Agriculture Office, 2020).

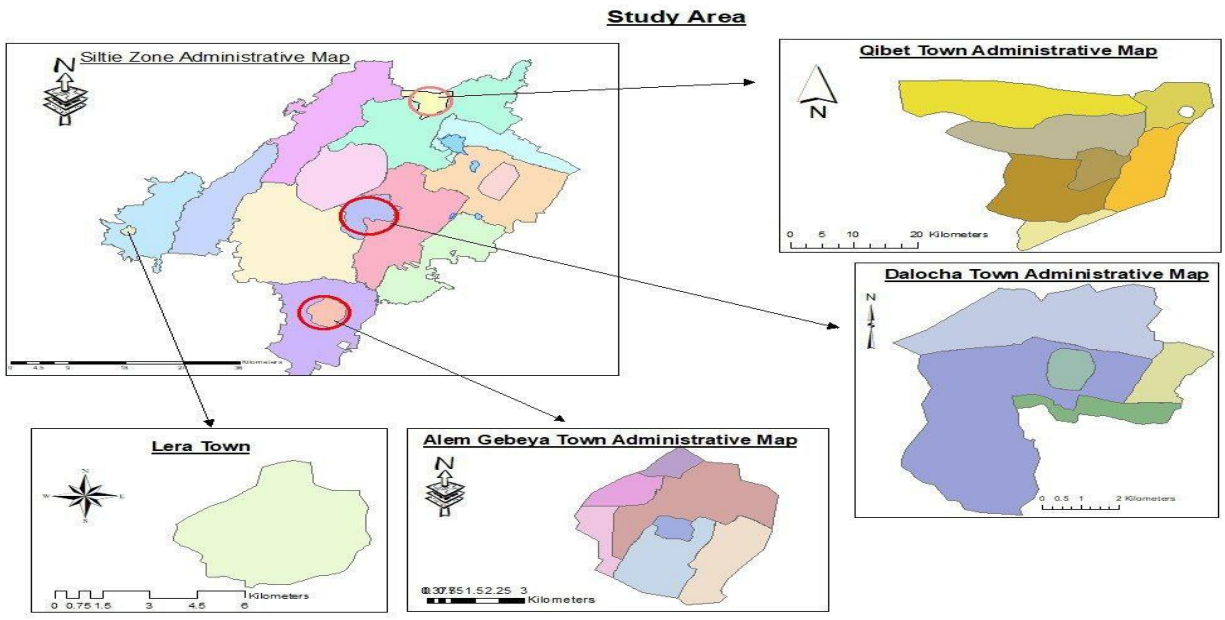


Figure 2: Map of the study area

Source: From Siltie Zone Finance and Economy Development department

3.2. Types and Sources of Data

The study employed a mixed-methods approach, utilizing both qualitative and quantitative data sourced from both primary and secondary sources. Primary data was collected directly from a sample of MSEs, including both defaulters and non-defaulters. Secondary data was obtained from various sources, including relevant zone and district offices (Omo Bank, Micro and Small Enterprise Office), national and international reports, journals, and organizations.

3.3. Methods of Data Collection

The data were been collected through questionnaire. The questionnaire contains numerous questions about the socio-economic, and institutional characteristics of the sample enterprise which include the age of the enterprise, amount of loan obtained suitability of loan repayment period, collateral security, distance to a lending institution, loan scheme etc.

3.4. Sampling Technique and Sample Size Determination

The study employed a multi-stage sampling procedure to select its sample. In the first stage, Silte Zone was purposively selected as the study area due to its significant concentration of Micro and Small Enterprises (MSEs). In the second stage, within Silte Zone, four towns Alem Gebeya, Dalocha, Kibet, and Lera were purposively chosen based on the presence of a large number of MSEs. In the third stage, stratified sampling was then applied, categorizing MSEs into two strata based on their industry/manufacturing, agriculture and service-rendering. The study focused solely on loan beneficiary MSEs, categorizing those who repaid their loans by the due date as non-defaulters and those who failed to repay within 90 days after the due date as defaulters. Finally, simple random sampling was used within each stratum to select the intended sample enterprises. The sample size was determined using Cochran's (1977) sampling formula, accounting for the heterogeneous nature of the population in terms of loan repayment status (defaulters and non-defaulters).

$$n_0 = \frac{z^2_{\alpha/2} pq}{d^2}$$

Where z= value for selected alpha level of 0.025 in each tail (for 95% degree of confidence) =1.96 (p)(q) = estimate of variance = 0.25,

d = acceptable margin of error for proportion being estimated 5%= 0.05

$$n = \frac{(1.96)2*0.5*0.5}{(0.05)2} = 384$$

The sample from each town and sector is determined proportionally each MSEs member obtained from OMO bank of each towns as follows.

Table 1: Sample distribution from each town and sectors

Towns	Manufacturing		Service		Agriculture		Total
	Total	Sample	Total	Sample	Total	Sample	
Alemgebeya	69	23	105	35	105	35	93
Dalocha	66	22	93	31	120	40	93
Kibet	72	24	110	37	114	38	99
Lera	78	26	108	36	110	37	99
Total	284	95	**416**	**139**	449	150	384

Source: Own calculation and Written Data from each Town 2023

3.5. Method of Data Analysis

In this study, both descriptive statistics and econometric analysis were used to analyze the data obtained from the survey.

3.5.1. Descriptive analysis

The analysis of the data employed descriptive statistics, including means, standard deviations, percentages, and cross-tabulations. To compare defaulter and non-defaulter groups with respect to various explanatory variables, Chi-square tests were utilized. These statistical techniques provided a comprehensive understanding of the characteristics and relationships within the data.

3.5.2. Econometric model

The primary objective of this study is to identify the key factors influencing loan repayment performance among micro and small enterprises (MSEs). To achieve this, the study employs the Tobit model, a censored regression model, to empirically analyze the determinants of loan repayment performance in the study area. The Tobit model is particularly suitable for situations where the dependent variable, loan repayment performance, is censored, meaning that data on actual repayment amounts is available only for some observations. This censoring arises from the fact that loan repayment is often limited to a specific range, with some borrowers repaying their loans in full while others may default or partially repay.

Traditional approaches, like ordinary least squares (OLS) regression, are inadequate for analyzing censored data as they can produce biased and inconsistent estimates. The Tobit model addresses this issue by incorporating the assumption that error terms are independently and normally distributed. Moreover, unlike binary choice models like logit and probit, which only capture the probability of defaulting or not, the Tobit model captures the degree of loan recovery, providing a more nuanced understanding of repayment performance. Furthermore, the Tobit model avoids the heteroscedasticity issues inherent in the linear probability model (LPM) that uses OLS, resulting in more reliable estimates. The maximum likelihood estimation method is recommended for Tobit analysis, as OLS would lead to biased and inconsistent estimates by underestimating the true effect of the parameters. (Greene, 2000; Gujarati, 2004; Maddala, 1994).

The dependent variable in this study is the loan repayment ratio, calculated as the proportion of the loan repaid to the total amount borrowed from the OMO bank. This ratio ranges from 0 to 1.15, indicating a continuous measure of repayment performance. Given this continuous and bounded nature of the dependent variable, a two-limit Tobit model, based on the maximum likelihood technique, was deemed the most appropriate econometric model for this analysis (Gujarati, 2004). This model, originally presented by Rossett and Nelson (1975), is derived from an underlying classical normal linear regression model.

It's important to note that, for this study, complete defaulters are defined as those borrowers who borrowed but did not repay the full amount, resulting in a repayment ratio of zero. Partial repayment also signifies a default situation. Conversely, borrowers who fully repaid their loan within the specified time frame are considered non-defaulters. The two-limit Tobit model offers a robust framework for analyzing the factors influencing loan repayment performance, particularly for data with a continuous dependent variable that is bounded between two limits, allowing for a more comprehensive understanding of repayment behavior than traditional binary choice models.

(1) $y^* = \beta' X + \varepsilon$,

$\varepsilon \approx N[0, \sigma^2]$

(2) $$Y_i = \begin{cases} L \ if Y^* \leq L \\ Y^* = \beta X + \varepsilon_i if L < Y^* < U \\ U \ if Y^* \geq U \end{cases}$$

Where,

Y_i = the observed dependent (censored) variable, in this case repayment ratio (ratio of amount repaid to the amount borrowed)

Y_i* = the latent variable (unobserved for values smaller than 0 and greater than 1).

X_i = is a vector of independent variables (factors affecting loan repayment and intensity of loan recovery).

L and U are threshold values (L =0 and U =1) β= Vector of unknown parameters

ε, = Residuals that are independently and normally distributed with mean zero and a common varianceσ^2, and i= 1, 2...n (n is the number of observations).

By using the two-limit Tobit model, the loan repayment ratio was regressed on the various factors hypothesized to influence loan repayment performance of smallholder farmers in the study area.

The log likelihood function for the general two-limit Tobit model can be given as follows Maddala (1992) and Long (1997):

$$\log L = -\frac{1}{2}\sum_{j\varepsilon c} w_j\left[\left(\frac{y_{i-x\beta}}{\sigma}\right)^2 + \log 2\pi\sigma^2\right]$$
$$+\sum_{j\varepsilon L} w_j \log \Phi\left(\frac{y_{Lj}-x\beta}{\sigma}\right)$$
$$+\sum_{j\varepsilon R} w_j \log\left[1-\Phi\left(\frac{y_{Rj-}x\beta}{\sigma}\right)\right]$$
$$+\sum_{j\varepsilon I} w_j \log\left[\Phi\left(\frac{y_{2j}-x\beta}{\sigma}\right)-\Phi\left(\frac{y_{1j-x\beta}}{\sigma}\right)\right]$$

Where, C's are point observations, L's are left censored observations. R's are right-censored observations, and I's are intervals. The ϕ is the standard cumulative normal distribution, and the W_j is the normalized weight of the j^{th} observation.

The Tobit coefficients do not directly give the marginal effects of the associated independent variables on the dependent variable. But their signs indicate the direction of change in the probability of being a non-defaulter and the marginal intensity of loan recovery, as the respective explanatory variable change (Amemiya, 1984; Goodwin, 1992; Maddala, 1985, cited in Amare, 2005).

The Tobit model has an advantage in that; its coefficients can be further disaggregated to determine the effect of a change in the i^{th} variable, on changes in the probability of being non-

defaulter (Me Donaled and Moffit, 1980) as follows:

1. The change in the probability of repaying the loan as an independent variable X, changes is:

$$\frac{\partial \Phi(\delta)}{\partial Xi} = \phi(\delta)\frac{\beta_i}{\sigma} \quad (5)$$

2. The change in intensity of loan recovery with respect to a change in an explanatory variable among non-defaulters is:

$$\left(\frac{\partial E\left(Y_i/_{U>Y_i^*>L,X}\right)}{\partial X_i}\right) = \beta_i\left(1 + \frac{\delta_L\phi(\delta_L) - \delta_U\phi(\delta_U)}{\Phi(\delta_U) - \Phi(\delta_L)} - \left[\frac{\phi(\delta_L) - \phi(\delta_U)}{\Phi(\delta_U) - \Phi(\delta_L)}\right]^2\right) \quad (6)$$

3. The marginal effect of an explanatory variable on the expected value of the dependent variable is:

$$\frac{\partial E(Y/X_i)}{\partial X} = \beta_i\left(\Phi(\delta_U) - \Phi(\delta_L)\right)$$

Where,

Xi = explanatory variables,

$\phi(\delta)$ = the cumulative normal distribution

$\delta = \frac{\beta_i X_i}{\sigma}$= the Z-score for the area under normal curve β_i =A vector of Tobit maximum likelihood estimates σ =The standard error of the error term.

L and U are threshold values (L =0 and U =1)

$$\delta_{L=}\frac{L - X_i\beta}{\sigma}$$

$$\delta_U = \frac{U - X_i\beta}{\sigma}$$

Φ and ϕ are probability density and cumulative density functions of the standard normal distribution, respectively.

3.6. Definition of Variables and its Expected Sign

3.6.1. Dependent variable

Loan Repayment Performance (Y): The dependent variable in the econometric model for this study is the proportion of formal loans repaid during the specified repayment period. This is calculated as the ratio of the total amount of credit repaid to the total amount due, resulting in a continuous variable that ranges from 0 (no payment made) to 1.15 (full repayment). Borrowers

who fail to repay the full amount of their loan are considered complete defaulters, with a repayment ratio of zero. Partial repayment also constitutes a default. In contrast, borrowers who fully repay their loan within the stipulated timeframe are classified as non-defaulters. This continuous measure of repayment performance allows for a more nuanced analysis of loan repayment behavior compared to simply classifying borrowers as defaulters or non-defaulters.

$$\textbf{Loan Repayment Ratio (LRP)} = \frac{\textbf{Total Loan Collected}}{\textbf{Total loan obtained}}$$

3.6.2. Independent variables

The explanatory variables hypothesized to influence the loan repayment performance of MSEs are explained as follows:

1. **Education level**: It is a categorical variable indicating education level of managers of the borrower's enterprise during the survey year. Education increase external business exposure improves the use of information, and business management skills, which enhances enterprise productivity and profitability. Therefore, the manger education level is hypothesized to foster the loan repayment performance of MSEs. Kebede *et al*., 2016 who revealed that a higher education level increases loan repayment performance of the business. This variable was hypothesized to affect the loan repayment performance of the enterprise positively.

2. **Loan size**: It is measured in natural logarithm of loan size obtained from the financial institution in Birr. The amount of loan might influence loan repayment performance of MSEs either positively or negatively. The higher loan size may increase borrowers' burden to meet the large principal and interest obligations, while the increased loan enables enterprises to operate fully and productively which boosts loan repayment performance. The first hypothesis supported by (Melese and Asfaw, 2019) that found large loan size became difficult for borrowers if businesses do not generate expected cash flows. The latter hypothesis conforms to (Enimu *et al*., 2017; Pasha and Negese, 2014) who revealed that sufficient loan size enables the business to operate at full capacity and increase loan repayment performance. This variable was hypothesized to affect the loan repayment performance of the negatively or positively.

3. **Collateral security**: It is a dummy variable, which takes 1 if collateral for the loan is an own asset and 0 otherwise. The presence of reliable collateral is expected to increase the loan

repayment performance of MSEs, as borrowers give attention to loan utilization and repayment to protect the loss of their collateral assets. This evidence is confirmed by (Abuye and Shiferaw, 2019) who found collateral is the main requirement to guarantee loan repayment practice of borrowers. This variable was hypothesized to affect the loan repayment performance of the enterprise positively.

4. **Repayment period/Frequency**: It is defined as the suitability of loan repayment period to the enterprise which helps them to arrange the required money to repay the debt. This is a categorical variable, which takes a value of 1 if the repayment period is quarterly, 2 if semi-annually, and 3 if annually. It is expected that a suitable repayment period for enterprises to have a positive effect. However, the loan repayment schedule, which does not consider business production and marketing period negatively affect the repayment rate. Hence, the shorter repayment period is expected to affect loan repayment performance negatively and vice versa. The hypothesis was confirmed by (Alemu, 2018) who revealed that loan payback period inconvenience negatively affects loan repayment of MSEs. This shorter repayment period was hypothesized to affect the loan repayment performance of the enterprise negatively.

5. **Loan supervision frequency**: this variable is measured as the number of times per year loan supervision and monitoring has been done to enterprises. A continuous follow-up and supervision visit to evaluate loan utilization and repayment makes borrowers efficiently use their loan and remind their obligations. The continuous follow-up and visit of respondents reduces the probability of being defaulter (Alemu, 2018; Enimu *et al*., 2017) Therefore, it is expected to have a positive effect on the loan repayment performance of MSEs in the study area. This variable was hypothesized to affect the loan repayment performance of the enterprise positively.

6. **Loan utilization**: It is a dummy variable, which takes 1 if the loan is diverted for unintended purposes and 0 otherwise. The use of a loan for the unintended purpose whose productivity and profitability are not studied is expected to affect loan repayment performance negatively. This hypothesis is supported by (Kebede *et al*., 2016) who found that diverting loans into non-income-generating activities increases the default rate. This variable was hypothesized to affect the loan repayment performance of the enterprise positively.

7. **Additional income source**: This is a dummy variable, which takes a value of 1 if the

enterprise is involved in other income-generating activities and 0, otherwise. Such sources of income are expected to have a positive contribution toward loan repayment performance. Hence, enterprises involved in additional income-generating activities are expected to be more capable of repaying their loan in time. This evidence is supported by (Melese and Asfaw, 2019) who found that enterprises that have additional income sources positively affect loan repayment performance. This variable was hypothesized to affect the loan repayment performance of the enterprise positively.

8. **Distance to lending institution**: This is the distance of enterprises' working place to credit-providing financial institutions in walking minute. Micro and small enterprise nearness to financing institutions lowers monitoring and transaction costs of the institutions, which increases loan repayment performance. Hence, distance to the lending institution is hypothesized to influence the loan repayment performance of the enterprise negatively. This is confirmed by (Jote, 2018) who revealed that borrowers' nearness to lending institutions increases loan repayment. This variable was hypothesized to affect the loan repayment performance of the enterprise negatively.

9. **Mangers Training participation:** This is a dummy variable, which takes a value of 1 if the manager of the enterprise is participated in a training involved in other income-generating activities and 0, otherwise. This study hypothesizes that MSE managers who perceive greater benefits from training, have greater access to affordable training programs, and whose businesses face greater challenges are more likely to participate in management training programs. Previous research has shown that managers' perceptions of the value of training (Addae-Korankye, 2014), access to affordable training options (Ochieng, 2015), and the perceived need for training to overcome specific business challenges (Dangisso and Deyganto, 2020) are crucial factors influencing participation in training programs. This study aims to investigate the interplay of these factors to better understand the drivers of MSE manager training participation and identify potential strategies for promoting wider participation in such programs. This variable was hypothesized to affect the loan repayment performance of the enterprise positively.

10. **Financial literacy**: It is a continuous variable that is measured in the number of financial-related training provided for the enterprise members. Financial literacy helps to manage the financial records, which positively contributed to the loan repayment performance of enterprises.

Therefore, financial literacy is expected to influence loan repayment positively. Well-organized training for borrowers minimizes the probability of being a defaulter (Jote, 2018; Pasha and Negese, 2014). Thus, financial literacy increases loan repayment significantly, which endorses the sustainability of financial institutions (Baidoo *et al.*, 2020). On the other hand, lack of financial skills and planning negatively affects the loan repayment performance of MSEs (Alemu, 2018). This variable was hypothesized to affect the loan repayment performance of the enterprise positively.

11. **Business Experience**: As the managers experience in the business of the borrower increases, the more knowledgeable he/she would be about the business and the more efficient and profitable it would become in its operation. Further, borrowers who acquired extensive experience in similar economic activity before the loan knows how to run a profitable business than new ones hence could have better repayment record (Abraham, 2002). This variable was hypothesized to affect the loan repayment performance of the enterprise positively.

4. RESULTS AND DISCUSSIONS

This section presents and analyzes the collected data, providing key insights and addressing the research questions of the study.

4.1. Description of Continuous Variables

The amount of total money repaid with the borrowed money is known as the loan repayment performance. This is an indication of borrowers' financial stability and ability to fulfill their commitments: it indicates the amount at which the borrowed money has been paid. In this study, it was found that borrower's enterprises, on average, repay approximately 0.31 of their borrowed amount. Significant variation in repayment outcomes is indicated by the observed range of 0 to 1.15; some borrowers completely repay their debts, including interest, while others do not make any payments at all as shown in the table below.

According to the study's findings, managers of the MSE age are typically in their mid-40s, indicating a mature population with a wealth of life and business experience. Age of the managers of MSE enterprise found to be positively connect with loan repayment performance, according to research, because older borrowers typically have more stable financial resources and better decision-making skills. The result also indicated that, it takes an average of 27 minutes to walk from the firm workplaces to the lending institution.

Managers' of MSE experience ranges from 1 to 13 years, with an average of 6.43 years. Experience of this kind is associated with improved financial management abilities, which can greatly enhance loan repayment results. There is evidence that seasoned business owners are typically better at handling financial difficulties and effectively handling their responsibilities.

Table 2: Summary of continuous variables

Variable	Obs	Mean	Std. Dev.	Min	Max
Loan repayment performance	384	0.316	0.286	0	1.15
Age of manager-owners	384	44.841	4.046	38	52
Enterprise distance	384	26.966	8.73	10	45
Managers business experience	384	6.427	3.392	1	13

Source: Own survey data, 2024

4.2. Loan Repayment Performance and Type of Business

Approximately 91.4% of the borrowed funds are not being repaid by the borrowers' businesses in a variety of industries are defaulters.

Manufacturing companies have a payback record of 21.6%, which is significantly lower than other enterprise in the study area were defaulter.

The service and Agricultural enterprises repayment performance is 34.89% of all businesses and lower than manufacturing, indicating that agriculture faces similar repayment issues as the service sector as shown in the table below.

Table 3: Summary of loan repayment performance by type of business

Types of enterprise	Defaulter		Non-defalter		Total	
	No.	%	No.	%	No.	%
Agriculture	134	34.89	16	0.042	150	39.06
Manufacturing	83	21.6	12	0.031	95	24.74
Service	134	34.89	5	0.013	139	36.20
Total	351	91.4	33	0.0859	384	100.00

Source: Own survey data, 2024

4.3. Comparison of loan size and amount repaid by type of business

Across several business sectors, intriguing trends are shown by analyzing loan size and repayment performance. The greatest average loan size of 304676.3 is seen in service businesses, which show a strong need for funding. However, manufacturing companies have the lowest average loan amount (276315.8) in the study area as shown in table below.

According to the survey result manufacturing enterprises had the greatest average amount repaid (86033.68) in the study area. This implies that they have effectively managed their finances or completed projects that allow them to fulfill their payback commitments. Although they borrow the most money, service companies pay back the fewer amounts on average (72600.72), which may be a sign of difficulties making enough money to pay back the debt or other financial limitations.

Manufacturing enterprise appear to be better at handling their finances and fulfilling loan commitments, which results in higher average repayment amounts, according to the analysis, even if service organizations can need larger capital investments, is consistent with study by Dangisso

and Deyganto (2020), who discovered that operational setbacks, improper allocation of funds, and insufficient monitoring and oversight can all affect repayment performance. In order to address potential issues and enhance loan repayment outcomes, it is crucial to take sector-specific characteristics into account and undertake focused interventions, as evidenced by the variance in repayment performance across sectors.

Table 3: Summary of loan size and amount repaid by type of business

Type of Business	No.	Loan Size		Amount replayed	
		Mean	SD	Mean	SD
Manufacturing	95	276315.8	133616.3	86033.68	77216.13
Service	139	304676.3	132983.1	72600.72	68011.41
Agriculture	150	288666.7	145554.6	77156	62074.09
Total	384	291406.3	138272.1	77703.39	68233.34

Source: Own survey data, 2024

4.4. Relationship between education, collateral and loan utilization and LRP

According to the survey, lower default rates are correlated with greater levels of education. A Chi-Square test verified that a considerable percentage (98.3%) of MSE managers who could only read and write defaulted; the p-value of 0.000 (less than 0.05) showed a statistically significant correlation between the manager's educational attainment and default status.

Although both the groups with and without collateral requirements showed significant default rates, the default rate for the group with collateral requirements was somewhat lower (89.6%) than the default rate for the group without (96.2%). The Chi-Square test revealed a statistically significant correlation between loan default status and collateral requirements, with a p-value of 0.037 (less than 0.05).

Borrowers who did not utilize the whole loan amount for business purposes were much more likely to default than those who did. A p-value of 0.049, which is below the significance level of 0.05, according to the Chi-square test, shows a statistically significant correlation between loan diversion and default status. This result is consistent with studies showing how crucial it is to use loans appropriately and how using money for non-business purposes increases the chance of default (Dangisso & Deyganto, 2020).

The analysis revealed no statistically significant relationship between having additional income and defaulting on loans, with a p-value of 0.196 (above the significance level of 0.05). This

suggests that while additional income might potentially improve a borrower's ability to repay, in this particular sample, it did not have a significant impact on defaulting behavior.

Table 4: education, collateral and loan utilization and LRP

Variables	Repayment status		Total	P-value
	Defaulter	Non-Defaulter		
Education level respondent				
Able to read and write	118	2	120	(0.000)***
Primary education	89	3	92	
Secondary education	66	15	81	
Diploma	44	7	51	
Degree and above	34	6	40	
Total	351	33	384	
Does your loan require collateral security?				
No	102	4	106	(0.037)**
Yes	249	29	278	
Total	384	33	384	
Do you have other sources of income currently?				
No	158	11	169	0.1962
Yes	193	22	215	
Total	351	33	384	

Source: Own survey data, 2024

4.5. Relationship Financial Literacy, Loan Supervision, Repayment Frequency and LRP

This study found that the relationship between micro and small businesses (MSEs) and financial literacy was measured by the number of management trainings available. Attending finance training can increase loan repayment performance. The p-value of the chi-square test of 0.042 was confirming the importance of financial illiteracy in paying performance in the study area as indicated in table below.

The result of the descriptive result indicated that there is not significant relationship between frequency of loan supervision and repayment performance in the study area. The Chi-square test produced a p-value of 0.829, despite the fact that the study found a slight variation in default rates across different supervision frequencies, with a higher rate among those who never received a visit from a loan officer (92.4%) compared to those who were visited at least once (88.4%).

Repayment frequency affected MSEs borrowers' cash flow management, but the frequency of repayment in this specific MSEs sample does not significantly affect their likelihood of defaulting, according to the study's p-value of 0.836 (above the significance level of 0.05), which

also showed no statistically significant relationship between repayment frequency and default status.

Table 5: Relationship financial literacy, loan supervision, repayment frequency and LRP

Variables	Repayment performance defaulter	non-defaulter	Total	P-value
How many times have you ever attend training before and/ after you started this				
Never	109	5	114	
Once	82	8	90	
Twice	108	11	119	0.0415**
three times	25	7	32	
More than three times	27	2	29	
How many times the loan officer visits your business and checks your repayment				
Never visit	207	16	223	
Once a month	25	3	28	
Once within two month	25	3	28	0.8286
Once within three month	56	6	62	
Once within a year	38	5	43	
Repayment Frequency				
The repayment period is quarterly	52	4	56	0.8365
Semi- annually	177	16	193	
Annually	122	13	135	

Source: Own survey data, 2024

4.6. Relationship between the Availability Working Space for MSEs and LRP

The result of analysis indicated that a statistically significant association between the availability of working spaces and loan default rates among micro and small enterprises (MSEs) in the study area, with a Chi-square test yielding a p-value of 0.038. This finding corroborates existing literature that emphasizes the necessity of a conducive business environment for MSE success (Dangisso and Deyganto, 2020). Specifically, among the 104 MSEs without a dedicated workspace, 90 defaulted on their loans, compared to 261 out of 365 MSEs with such spaces, indicating that access to a dedicated workspace can enhance loan repayment performance. A designated working space can improve operational efficiency, productivity, and professionalism, which are crucial for effective financial management and revenue generation, thereby reducing default risks.

Table 6: Having working space and repayment performance

Do you have working space on which you operate your business?	Repayment status		
	Defaulter	Non-Defaulter	Total
No	90	14	104
Yes	261	19	280
Total	351	33	384

Pearson Chi2 = 4.30 Prob = 0.0381

Source: Own survey data, 2024

4.7. The Problems Faced while Running MSEs and their Relationship with LRP

An examination of the loans between MSEs revealed a complex relationship between various business problems and the possibility of repaying. The data highlighted the need for targeted interventions to meet these challenges and improve the ability to repay loans.

The study's findings showed that 139 (89.7%) of the 155 respondents who experience market-related issues are defaulters. Given that this is the problem with the highest default rate, market concerns are a major default risk factor. Market-related problems account for a high number of respondents. Some of the challenges facing the market include applications such as competition, fluctuations in demand and entry into the market, which can be a major obstacle.

From the 96 respondents, 87 (90.6%) said they had problems using technology. This showed that they are defaulters. High default rates are also caused by technological problems, such out-of-date equipment or systems, indicating that technological constraints are a major factor in repaying difficulties. Technology issues disturb business competitiveness and operational efficiency. Businesses with technological difficulties are more likely to fail due to inefficiencies and lower productivity as indicated in the table below.

The analysis's findings also showed that 36 (94.7%) of the 38 respondents who had infrastructure issues were defaulters. High default rates are caused by poor infrastructure, which can restrict MSE operations and growth. This includes insufficient utilities, transportation, or physical facilities as shown in the table below.

Table 7: Problems related with repayment performance

What problems do you face while running MSEs?	Repayment status		
	Defaulter	Non-Defaulter	Total
Market	139	16	155
Finance	52	5	57
Technology	87	9	96
Infrastructure	36	2	38
Training	37	1	38
Total	351	33	384

Source: Own survey data, 2024

4.8. Determinants of Loan Repayment Performance of Micro and Small Enterprises

Twelve variable have been hypothesized to influence the loan performance of micro and small businesses (MESs) was considered in Tobit model. This study evaluated data from Omo Bank borrowers in the Central Ethiopian Silte Zone using the Tobit model. Six out of twelve hypothetical variables are statistically significant. This shows that manager's level of education, distance from banking, collateral requirements, credit utilization, financial literacy of managers, and loan amounts play a crucial role in influencing repayment performance. The significant chi-square result (LR chi2 (12) = 166.67, p = 0.0000) indicates that the model, which was generated using maximum likelihood estimation (MLE), produced a much better fit than the baseline model.

The findings of Tobit model regression investigation indicated a positive and statistically significant correlation between MSE managers' level of education and loan repayment performance, suggesting that managers with greater levels of education were more likely to successfully repay their loans. The Tobit regression finding implies that people with additional education are more capable of understanding their financial responsibilities and making the most of their money, which in turn improves their use of payments. This underscores the importance of using education programs to improve MSE managers' ability to operate their businesses effectively and promote financial illiteracy. This finding is consistent with previous expectation.

The distance to the lending institution had a negative impact on loan repayment performance at the 1% importance level. This negative effect suggests that traveling large distances can result in a logistically and financially burdensome burden, including the costs and time constraints required for travel, which may hinder the elimination of seasonal fees. This finding is consistent with previous expectation

The result of the Tobit analysis found that there was a positive and significant relation between collateral and loan repayment performance. This implies that collateral increases the likelihood of repayment of loan. The analysis noted that it was a lenders' protection measure, motivating borrowers to repay their loans in order to avoid paying off assets they could lose. This finding is consistent with previous expectation.

The study found that the use of credit for its intended purpose had a positive and statistically significant impact on loan repayment performance. The results of the Tobit analysis indicated that when the borrowers use their loans effectively, the amount of money borrowed increases. This indicated that the use of loans for intended purpose contribute to improving business activities and financial stability, creating a favorable environment for successful results and increasing their chances of loan repayment. This finding is consistent with previous expectation.

The Tobit regression output found a positive, statistically significant relation between MSE managers' financial literacy and loan payment performance, highlighting the need to equip borrowers to have effective money management skills. The results of the study imply that each additional funding will increase the amount paid. This indicated that the importance of financial literacy programs that meet the needs of MSE managers, meet their ability to make good financial decisions, make the most of their resources, and handle financial difficulties. This finding is consistent with previous expectation.

In addition, the study found a negative correlation between loan size and loan repayment performance, noting that high loans can pose a major challenge for borrowers. This suggests that the borrowers will be subjected to additional financial pressure and will meet their obligations to use and repay their financial resources properly. The results of the study showed that each unit increases the loan size and reduces the amount repaid. This finding is consistent with previous expectation.

Table 8: Tobit regression model results

Variables	Coef.	St.Err.	t-value	p-value
Managers Education level	0.034***	0.01	3.5	0.001
Distance to OMO bank	-0.011***	0.002	-7.06	0.000
Collateral requirements	0.085***	0.031	2.72	0.007
Loans utilization	0.094***	0.031	3.05	0.002
Additional income source	0.015	0.031	0.47	0.641
Mangers Training participation	0.028	0.034	0.8	0.423
Mangers Financial literacy	0.029***	0.011	2.78	0.006
Loan supervision frequency	-0.012	0.01	-1.17	0.244
Managers Business experience	-3.2e-4	0.004	-0.08	0.937
Loan size	-0.146***	0.021	-6.86	0.000
Repayment frequency				
Semi-annually	0.062	0.041	1.54	0.125
Annually	0.073	0.062	1.168	0.087
Types of MSEs				
Agriculture	-0.018	0.029	-0.630	0.532
Manufacture	0.002	0.004	0.410	0.680
Constant	1.915***	0.278	6.89	0.000
var(e)	0.059	0.004	.b	.b
Mean dependent var	0.316	SD dependent var		0.286
Pseudo r-squared	0.868	Number of obs		384
chi2(12)	166.668	Prob > chi2		0.000
Akaike crit. (AIC)	53.442	Bayesian crit. (BIC)		108.751
Uncensored	333			
Left-censored	19			
Right-censored	32			
Limits: Lower	0			
Upper	1			

*** *p<.01*

Source: Own survey data, 2024

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary and Conclusion

This research analysis the determinants of loan performance of micro and small enterprises (MSEs) in silte zone of central Ethiopia region and using data from Omo Bank in the Silte zone. A multi-stage sampling procedure was employed to select 384 MSE from different sectors. Among them were manufacturing, agriculture and services. This study employed descriptive statistics with the Tobit regression model to identify critical factors influencing loan repayment. The problems that face MES in the study area includes market related problems, technology related difficulties and financial relevance in the study area.

Some of the major factors identified include managers' level of education, distance of lending institutions, collateral requirements, and usage of loan for intended purpose, financial illiteracy of managers and loan size that affect loan repayment performance in the study area.

The results show that showed financial literacy, efficient loan use, managers' greater educational attainment, and their closeness to banks all have a beneficial impact on repayment success.

Institutions such as Omo Bank and local governments can implement these mandated strategies and promote better financial practices among MSEs, which in the long run will lead to better economic outcomes and reduced poverty levels. This study will serve as an important resource not only for the current body of knowledge on microfinance and development economies, but also for policymakers and stakeholders who are similarly striving to strengthen the performance and sustainability of micro and small enterprises.

5.2. Recommendations

Based on the findings of the study, it is possible to make the following recommendations the study using the Tobit model for factors affecting the loan performance of micro and small enterprises of Omo Bank in the Central Ethiopian Silte Zone.

Omo Bank, local governments, and educational institutions develop and implement targeted educational programs focused on financial management and entrepreneurship for MSE borrowers. These programs should aim to improve overall education levels and financial literacy, which in turn

can enhance loan repayment performance. Ongoing workshops and training sessions can help borrowers better understand their financial commitments and improve their ability to manage funds.

Concerned body establishes banking services closer to communities, to reduce the distance burden on borrowers. This could include mobile banking units or additional branch locations or loan officers should collect money at regular interval to reduce transport cost and other financial related risk. Ensuring easier access can help borrowers manage their loans more effectively by minimizing logistical challenges and travel costs associated with reaching lending institutions.

Omo Bank's lending officers and policymakers review and modify collateral requirements to ensure they are fair and attainable for MSE borrowers. Consider offering more diverse collateral options or guarantees that reflect the borrowers' asset profiles. Providing loans with appropriate collateral expectations can enhance repayment rates by reducing the risk of default.

Omo Bank and financial advisors implement a monitoring system to ensure that borrowers use their loans for their intended purposes. This could involve follow-up assessment’s post-loan disbursement to track utilization effectiveness. Offering resources or guidance on how to maximize the potential of loan funds can lead to better business outcomes and repayment performance.

Omo Bank in partnership with NGOs and local educational institutions increase the availability and accessibility of financial literacy training programs for borrowers. Regular workshops and seminars that promote understanding of financial management and repayment strategies can help borrowers handle their obligations more effectively. Tailored programs that cater to the specific needs of different business sectors can enhance engagement and effectiveness.

Financial organizations must create cutting-edge goods and services that satisfy customer demands while upholding religious principles. This involves exploring alternative lending models, such as interest-free financing, or promoting financial literacy programs that incorporate religious perspectives. Implementation of these recommendations depends on effective cooperation among government agencies, financial institutions, and non-governmental organizations. This cooperation should concentrate on increasing the ability of MSEs and their stakeholders to access and make efficient use of market opportunities, training programs, and financial resources.

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7. APPENDICES

Questioner for Determinants of Loan Repayment Performance of Micro And Small Enterprises the Case of Omo Banck in Silte Zone Central Ethiopia Region

I. Demographic Information

1. Name of the Enterprise:
2. Location of the Enterprise:
3. Type of Business (Manufacturing, Service, Contraction, …):
4. Years of Operation:
5. Legal Structure (Sole Proprietorship/Partnership/Corporation):
6. Number of Employees:
7. Annual Turnover (Previous Fiscal Year):

General information about MSEs manager

1. Sex: Male□ Female □

2. Education level: _____

3. Marital status Married□ Divorced □ Single□

4. Age: _____

Micro and Small Enterprises

2. Total number of business members _____
3. Distance traveled from the business to Omo bank? _____ hrs
4. Do you have saving account? □ Yes □ No
5. If yes, where do you save?

□ Omo bank Other microfinance
□ In formal banks Others_

6. For what purpose do you save?

□ For expand business For personal needs For consumption

1. Do you have working space on which you operate your business? 1. yes 2. no
2.If question 1 `No` what is the reason?
1. Absence of own premises 2. Not convenient 3. Too high cost
3. Is your working place is located at strategic location to the market? 1. Yes 2. No

II. Institutional related questions

1. Are you received credit from OMO bank? □ Yes □ No
2. If yes, amount received _____Birr
3. Is the repayment scheme set by omo bank suitable? □ Yes □ No
4. If No, what are the reasons?

□ The starting time to repay is too early

□ The repayment period is short
□ The amount of repayment in each month is too much
□ Others __
5. What do you suggest to make the repayment scheme suitable?
□ To give enough time before starting to repay
□ To make the repayment period longer
Others .
6. Interest rate for credit set by Omo bank is: High Medium Low
7. What happens if MSI does not repay the loan (default)?
□ Loss of personal asset
□ Loss of loyalty social or friendly relationship with other person
□ Losing second time loan/repeated loan
□ Others __
8. Do you know any MSI who are not repaying the loan? □ Yes □ No
9. If yes, what are the characteristics?
□ Micro borrower's
□ Small borrower's
10. Why would MSI not repaying the loan?
□ Lack of follow up by loan officer
□ Weak legal enforcement for defaulters
□ Improper use of the loan
□ Lack of interest for doing business
□ Others___
11. Did all business owners take training from Omo bank? □ Yes □ No
12. If yes, what kind of training do you take?
• Business training
• Training on different microfinance service (credit, saving, insurance)
• Other ___
13. By whom this training was given?
□ By loan officer
□ By managers
□ By Others_____
14. Was the training useful? □ Yes □ No

II. 13. How many times have you ever attend training before and/ after you started this business?
1. Once 2. Twice 3. Three times 4. More than three times 5. Never

1. How many times the loan officer visits your business and checks your repayment status?
□ Two times a month Once a month Once within two month
□ Once within three month Others _____
2. Is the loan and repayment supervision made by one loan officer throughout the process (from loan application to final repayment)?
□ Yes □ No
3. If No14, do you know the reason? ____
4. Are you served in a good manner by the loan officer and other employees of Omo bank? □ Yes □ No
5. If No, what is/are the reason(s)?
□ There is information gap
□ The loan officers are busy
□ The loan officers are not disciplined

□ Others __
6. Is your and loan officer motivate you to pay the loan on time? □ Yes □ No
7. If# 18 Yes , this a lot contribute to the loan repayment □ Yes □ No
8. Is the loan officer has sufficient knowledge □ Yes □ No

Group lending related questions

9. Are you involved in a group lending? □ Yes □ No
10. If yes, why did you engaged in group lending?

□ Easy to get loan in a group
□ By initiative with one of the group members
□ Others __

11. How many members does the group have?

□3 □ 5 □ 10 □ Other

12. How was the group formed?

□ Based on the group member interest
□ Based on the loan provider (omo bank) interest
□ Others __

13. Number of members currently_____
14. How many of the group member that you know before?

□ All of the group member
□ Half of the group member
□ One fourth of the group members
□ Others __
□ None of them

15. How many of the group members are:

A. Family members
B. Friends _
C. Neighbors

16. Do you feel responsibility to the other members of your group related to loan repayment?

□ Yes □ No

17. If yes, what are the main reasons?

□ Social capital i.e. trust, cooperation, personal ties
□ Fear of default
□ Others __

18. What actions do you take when the group members didn't repay their loan?

□ Inform to the loan provider,
□ Other group member paid for who do not pay
□ Others__

Business related questions

19. In which types of business currently engaged?

□ Service manufacturing Trade Others__

2. .How long did your enterprise association stay in business since establish?

20. Did you conduct market study (survey) before starting your business?

□ Yes □ No

21. If No, why? ____
22. Are you able to get (access) business information related to your business?

□ Yes □ No

23. If Yes, how to get this information?

□ From various media (TV, radio, newspaper, etc.)
□ From friends
□ From the loan provider (omo bank)
□ Others___
24. Is your business successful? □ Yes □ No
25. If No, what do you use to repaying your loan?
□ From my personal asset (building, equipment...)
□ From other income source
□ Don't want to repay Others _____

iv. Loan & Repayment related questions

1. Purpose of borrow from Omo bank?
□ For doing new business
□ For expanding already existing business
□ For credit payment
Others .
2. Type of Loan : Working Capital Asset Purchase Expansion
3. Loan Amount received: - Interest Rate: -
4. Loan Term (Months/Years): -
5. Repayment Frequency Weekly Monthly Quarterly
6. Amount of loan repaid _____
7. Current Repayment Status On Time Delayed Missed -
8. How many times did you borrow from omo bank? _____ times
9. How long it takes the first application acceptance?
□ One week □ Two week □ One month □ other ____
10. What is/are the reason(s) for these?
□ loan officers are qualified
□ Speedy procedure (short process)
□ Due to long procedure (process)
□ Many people apply for credit at one time
□ The loan officers are not willing to finish within short time
□ Others___

X. Collateral Security

1. Does your loan require collateral security? Yes No

2. If yes, please specify the type of collateral provided:

Real estate

Equipment/Machinery

Vehicles

Inventory/Stock

Others (please specify)

3. How confident are you that the collateral you provided adequately secures your loan?

Very confident

Somewhat confident

Not confident

4. Have you experienced any challenges related to collateral security during the loan process or repayment? Yes No Not applicable (if collateral was not required)
5. What is the repayment period for your loan?

Quarterly

Semi-annually

Annually

6. How suitable do you find the repayment period provided by your lender?

Very suitable

Somewhat suitable

Not suitable

7. Have you faced any difficulties in managing repayments due to the frequency of repayment periods? Yes No
8. If yes, please specify the nature of the difficulties encountered:
9. How much money do you borrow from omo bank ____
10. Did you spend the entire loan for running your business? □ Yes □ No
11. If No, for what purpose do you spent?

a. Consumption Education for children Health Others

12. Do you take the request amount of loan from Omo bank as you requested?

□ Yes □ No

13. If No, is it □ Lower □ Higher
14. Is the amount of loan taken from Omo bank enough for doing all your business?

□ Yes □ No

15. If No, what solution do you take?

a. Borrow from other omo bank
b. Borrow from family or friends
c. Borrow from informal money lenders
d. Borrow from formal banks
e. Used by the available amount of money
f. Others___

16. If your response is no for the question number 15 what was the amount you requested? ETB (Ethiopian Birr)

Did you borrow from other sources for other purposes? □ Yes □ No

17. If yes for what purpose?

□ Consumption business □ building house □ energy □ other

18. If yes, from where do you borrow?

a. Borrow from other Microfinance institutions
b. Borrow from family or friends
c. Borrow from informal money lenders

d. Borrow from formal banks
e. Others___
19. How much is the monthly repayment amount of your loan(Principal and interest only) in birr_____
20. Which loan do you repaid first and why?
a. Loan from Omo bank?
b. Loan from family or friends
c. Loan from informal money lenders
d. Loan from formal banks
e. Others___
21. Are you repaying your loan? □ Yes □ No
22. The amount you paid (birr)
23. If yes, what is your repayment status?
Fully repaid □ On time □ Too late Partially repaid □ On time □ Too late
24. Are you benefited by fully repaying your loan? □ Yes □ No
25. If yes, what are the benefits?
a. Access to the next higher loan
b. Build good relationship with the loan provider
c. To make the family stable
d. Others __
26. If your answer is No for # 25, what is/are the reason(s)?
a. The cost of doing business is higher than the revenue
b. Weak legal enforcement for defaulters
c. Low supervision by the loan officer
d. personal problem (like sick)
e. Improper use of the loan
f. Others
27. Do you have other/new sources of income currently? Yes □ No□
28. Do women entrepreneur program will benefit for the loan you took? Yes□□□□□No□
29. If your answer is yes for # 25, what is/are the benefit (s)?
a. The interest rate is lower than other kind of loan
b. The loan size is higher than other kind of loan
c. The loan term is higher than other kind of loan
d. The loan collateral type is easy and affordable.
e. Others___

V. General questions

1. If you face any difficulties and challenges during the repayment process, please mention the major challenges

2. What factors other than those indicated in the questionnaires had seriously undermined your repayment performances?

VI) Management experience

1. How many years of experience you have in running your business managing yourself? ____Years
2. What was the monthly average planned sales amount while you are planning to take loan i.e during the loan appraisal period in birr_?
3. What is the current average sale per month considering the last 12 months in birr _____?
4. Do you have other sources of income other than the business financed by the loan

Yes No

5. If yes to question 4 What was the other business or source of income _
6. If yes to question 4 what is the average income amount per month
7. Have you paid for the loan repayment from other business or other income other than the loan financed business? Loan financed project only other

VII CREDIT /LOAN UTILIZATION

1. Did you get the loan at the right time after you apply for the loan?

Yes No

3. If your answer to question 1 is no, what is the reason for delay?

- Lengthy period the institution took in loan processing.
- Failure to timely provide the necessary documents by the promoter.
- Failure of the promoter to timely fulfill the preconditions stipulated on the loan contract
- Delay in settlement of the previous loan.
- Others (specify)

4. What was the impact of the delay?

5. How do you get the method of disbursement of the loan?

Suitable Not suitable

6. If your answer to question 4 is not suitable, what do you think the suitable form of disbursement?------ ----------

7. What was the Purpose of the credit was taken?

Retail trade
Production of construction inputs
Metal and wood work
Hotel and catering services
Other Miscellaneous business please describe -

8. Did you spend the entire loan on purposes specified in the loan agreement?

Yes No

9. If no to question 7 what was/ware the reason(s) for spending part or entire loan for non- intended purposes?(multiple answer possible)

- The loan amount was not enough for the intended purpose
- Delay in disbursement
- The loan agreement did not coincide with my initial intention
- To repay another loan
- To make a more profitable business
- Over finance
- Other (specify)__

10. Which of the following is the most important on motivating or forcing you to repay your loan on time?(multiple response possible)

- Claim against personal wealth

- Claim against guarantors
- Social sanctions (e.g. loss of social status) or to keep social status
- Fear of losing another loan in future
- Knowing that paying back loan is your obligation
- Other (specify)

1. What problems do you face while running MSEs?
   Market Finance Technology ·
   Infrastructure · Training · Raw material & other
2. What measures did you take to solve the problems you faced?
3. What is the main strength of this business?

V: SUPERVISION, CONSULTATIVE VISITS AND TRAINING
SECTION VI: MARKET SITUATION AND CREDIT BENEFIT

1. Please list the major products and/or services produced from your business that is financed by the credit/loan from your customer omo bank?

2. How was the demand for your product that you produced and/or service rendered?
   High Average Low
3. What was the trend of profits in the level of your business in the past 5 years?

Increased Decreased stayed the same

4. If your response for question number 3 is increased, what do you think is the reason behind?
   Sufficient fund Availability of market Quality advantage Favorable price Other (please describe)

5. If your response for question number 3 is decreased, what do you think is the reason behind?

Insufficient fund
Increase in input price
Lack of business knowledge
High competition/low sales
Decline in selling price
Other (please describe)_____

Table 9: mfx of tobit model

lnrepperfrmnce	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Managers Education level	.038	.01	3.83	0	.018	.057	***
Distance to OMO bank	-.011	.002	-7.38	0	-.014	-.008	***
Collateral requirements	.081	.031	2.59	.01	.02	.143	**
Loans utilization	.001	.016	0.06	.952	-.031	.033	
Additional income source	.093	.031	2.99	.003	.032	.155	***
Mangers Training participation	.011	.031	0.35	.725	-.051	.073	
Mangers Financial literacy	.024	.035	0.70	.485	-.044	.092	
Loan supervision frequency	.03	.011	2.82	.005	.009	.051	***
Managers Business experience	-.011	.01	-1.09	.276	-.031	.009	
Loan size	-.002	.004	-0.39	.694	-.009	.006	
Repayment frequency	-.147	.022	-6.82	0	-.189	-.105	***
Semi-annually	.026	.019	1.36	.175	-.011	.063	
Constant	1.889	.281	6.71	0	1.336	2.442	***
var(e	.06	.004	.b	.b	.052	.069	

Mean dependent var	0.317	SD dependent var	0.287
Pseudo r-squared	0.833	Number of obs	384
Chi-square	162.174	Prob > chi2	0.000
Akaike crit. (AIC)	60.525	Bayesian crit. (BIC)	115.834

*** *p<.01*, ** *p<.05*,