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DECLARATION

I, the undersigned, declare that this thesis is my original work and has not been presented for a degree in any other University.

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Thesis Title “Cause And Effect Of Poor Loan Recovery And Client Drop Out On Profitability Of Oromia Credit And Saving Share Company” the case of East Shawa Zone.

We, the under signed recommend that the thesis stated above be accepted in partial fulfilment of the degree required.

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Abstract

Micro finance plays a great role in improving the livelihood of its beneficiaries. The objective of this study was to investigate the cause and effect of poor loan recovery and client dropout on profitability of OCSSCO East Shawa Zone. Descriptive and explanatory research design was employed. In research process and both primary and secondary data was collected. Cluster sampling technique was employed. From a total of 250 population 148 was used as sample population. One Hundred forty eight questionnaires were administered and 95% of questionnaires were completed and returned. Audited financial report of 10 year of East Shawa was collected. The data was analyzed using Statistical Package for Social Sciences (SPSS) and Eview soft ware. Result was reported using descriptive and inferential statistics. The study found evidence that for cause of poor loan recovery Model summary indicate R square value equals 0.72 this means our model which include loan policy reason and loan client reason explain 72% of variance in poor loan recovery. ANOVA indicate significance of model, our model is statistically sign (sig=0.000), this really means $P<0.0005$). To find factor contribute more Regression Coefficients beta standardized coefficient was used to indicate the contribution of each factors to poor loan recovery. Loan policy reason contribute (beta = 0.371) and loan client factors contribute (beta =0.646). Of this two factors loan clients factors makes the largest contribution (beta =0.646).For cause of client drop out Model summary reveal that R square value is 0.691 this means our model which include Program and product policy reason, Group lending reason and Client business reason explain 69.1% of variance in drop out. ANOVA indicate significance of model our model is statistically sign (sig=0.000), this really means $P<0.0005$). To find factor factors more contribute for drop out Regression Coefficients beta standardized coefficient indicate the contribution of each factors to client drop out, Program and Product Policy factors, contribute (beta = 0.149), Group Lending factors contribute (beta =0.311) and client business factors contribute (beta =0.582). Of this factors client business factors makes the largest contributor (beta =0.582) to drop out. To measure effect of Drop out and poor loan recovery Eview soft ware used and the result indicate both poor loan recovery and drop out negatively affect profitability measured by Net profit after tax at $p<0.0005$ level of significance. This suggests that a unit increase in provision to loan loss will result in 0.76733 units decrease in net profit after tax. Similarly, a unit increase in cost of drop out will result in 2.16 units decrease in net profit after tax. Further, I recommend other researcher to work on client protection and credit risk appetite level in Oromia Credit and saving share company East Shawa zonal Office.

Keywords: cause of poor loan recovery, cause of drop out and MFI profitability



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CHAPTER ONE: INTRODUCTION

1.1 Back Ground of the Study

The major goal of microfinance is the provision of micro financial services to the low-income and the poor households (Bystrom, 2007). The chance that a microfinance institution (MFI) may not receive its money back from borrowers (plus interest) is the most common and often the most serious vulnerability in a microfinance institution. Since most microloans are unsecured, delinquency can quickly spread from a handful of loans to a significant portion of the portfolio. This contagious effect is exacerbated by the fact that microfinance portfolios often have a high concentration in certain business sectors. Consequently, many clients may be exposed to the same external threats such as livestock disease outbreak and bad weather. These factors create volatility in microloan portfolio quality, heightening importance of controlling credit risk. In this regard, MFIs needs a monitoring system that highlights repayment problems clearly and quickly, so that loan officers and their supervisors can focus on delinquency (repayment rate) before it gets out of hand. In lending services, a default is the failure to pay back a loan. A loan is delinquent when a payment is late (CGAP, 1999). A delinquent loan becomes a defaulted loan when the chance of recovery becomes minimal.

Delinquency is measured because it indicates an increased risk of loss, warnings of operational problems, and may help predicting how much of the portfolio will eventually be lost because it never gets repaid.

In this regard, this research seeks to study the effects of microfinance institutions (MFIs), client specific factors, and external factors on loan delinquency.



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(Pandey, 2008) as economic conditions change, the credit policy of the firm may also change. Microfinance Institutions and other finance institutions must develop a credit policy to govern their credit management operations and since microfinance institutions generate their revenue from credit extended to low income individuals in the form of interest charged on the funds granted the loan repayments may be uncertain. Numerous approaches have been developed in client appraisal process by financial institutions. They range from relatively simple methods, such as the use of subjective or informal approaches, to fairly complex ones, such as the use of computerized simulation models (Horne, 2007). Many lending decisions by Microfinance institutions are frequently based on their subjective feelings about the risk in relation to expected repayment by the borrower. Microfinance institutions commonly use this approach because it is both simple and inexpensive. While each company would have its own method of determining risk and quality of its clients, depending on the target group, the following client evaluation concepts are useful for most occasions.

Many practitioners have a strong belief that microfinance can contribute positively in the lives of low-income households (Armendáriz and Morduch, 2007). These studies have shown that clients of microfinance institutions witnessed a positive impact at different levels: at a household level, by increasing their income and their consumption (Khander, 2005; Swain et al, 2008; Mosley, 2009); at an enterprise level, by contributing to capital accumulation and creation of employment opportunities (Hiatt et al, 2006; Mosley, 2009) and last but not least, at the community level, by employing new workers within poor groups (Mosley, 2009).

The East African MFIs case illustrates the high rate of dropouts (25%-60%) some MFI can face and that could undermine the success of the programs. Although



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clients dropout over-time, even from the most successful organizations, in microfinance sector, dropout is portrayed as a negative phenomenon by many practitioners, because both MFI and clients have much to gain from a long-term banking relationship. For those authors, customer loyalty reinforces interactions between clients and MFI, it mitigates the two main problems of credit market: moral hazard and adverse selection and increases the availability of credit (Duflo, 2010). Meyer and Al (2001), in their paper examining the determinants of borrower dropouts in Mali, said that retaining clients is very important for MFIs because it reduces MFI's administrative costs, lowers default risks and increases the average loan balance as well as the institution's productivity. Schreiner (2004) confirms this, according to whom, the cost of acquiring new clients is higher than keeping old ones, a conclusion he arrived at when scoring dropouts at a micro lender in Bolivia.

MFIs in Ethiopia are facing problems of loan loss, limited fund for lending, unprofitable, problems related entrepreneurial quality of the client, staff with limited technical and banking skills, and weak supervision. Therefore, MFIs in Ethiopia lack the above qualities, which are crucial for the viability and sustainability and able to be in business on its own, and it is doubted that MFIs will continue as viable institution in future following the past condition as means of alleviating poverty, "creating social capital" and financial intermediation (Wolday, 2000).

Oromia Credit and Saving Share Company is an infant of two decades company in Ethiopia micro financial industry, reports show that OCSSCO has 305 branch out reach 707,615 active client 3,498,478,787 outstanding loan and mobilize saving of birr 2,138,060,493.78 at the end of 2014/15 fiscal year.



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However, in few past years OCSSCO has been challenged by low loan recovery and significant client drop out that the company has acquired through stringent long processes in spending considerable costs for targeting, screening and organizing the clients. The company has also been losing its loyal customers who have demonstrated credit worthy character and in similar way due to low loan recovery rate cost of loan loss increase from time to time.

This study provides insight in determine the effect of loan recovery and drop out on overall performances of the company .The study will also help the company in understanding the effect of low loan recovery and client drop out on performance of the company

1.2 Statement of the Problem

It was generally accepted operational and financial performance of micro finance is mainly depend on the loan recovery rate of outstanding portfolio, which indirectly measure return on asset of micro financial institution. On the same manner, it is equally agreed by the MFI practitioners that good client retention and increasing outreach to new client is one of operational performance indicators of micro financial intuitions.

Oromia Credit and Saving Share Company (OCSSCO) over the past years have moved from giving subsidized credit to a financial self sustainable company that gives credit to its clients at a cost , be able to recover the entire loan disbursed and tried to retain almost all of its clients.

In the first decade of its operation, OCSSCO has been enjoying very good repayment and client retention history. However, very recently, the good company's loan recovery and client retention history compromised and absolute amount of loan in arrears and client drop out clients are recorded in increasing trend from year to year. (Company 2010-2015 operational report)



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Therefore, it is this fact that prompted the researcher to investigate the cause and effect of poor loan recovery and high client drop out on profitability of Oromia Credit and Saving Share Company (OCSSCO) East Shawa Zone.

1.3 Research Questions

In view of the above statement of the problem the following research questions were formulated

1. What are the causes of poor loan recovery in OCSSCO East Shawa Zone?
2. Which factors contribute more to poor loan recovery in OCSSCO East Shawa Zone?
3. What are the causes of client drop out in OCSSCO East Shawa Zone?
4. Which factors contribute more to drop out in OCSSCO East Shawa Zone?
5. Do poor loan recovery and client drop out has effect on profitability of East Shawa Zone?

1.4 Objectives of the Study

The general objective of the research is to determine the effect of loan recovery and client drop out on company performances

1.5 Specific objective

1. To find out the cause of poor loan recovery in OCSSCO East Shawa Zone
2. To investigate which factors of poor recovery contribute more to poor loan recovery in OCSSCO East Shawa zone
3. To find out the cause of client dropout in OCSSCO East Shawa Zone
4. To investigate Which factors of drop out contribute more to drop out in OCSSCO East Shawa Zone



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5. To measure effects of poor loan recovery and client drop out on OCSSCO East Shawa Zone profitability

1.6 Significance of the Study

The study would help OCSSCO's management in general and East Shawa management in particular to understand cause and effect of poor loan recovery and client drop out on profitability of the company and so as to design strategies and tools to reduce loan loss and retain existing customers for relative longer cycles so that OCSSCO will ensure its financial and operational sustainability. Other Micro Finance Institutes those operating in same operational area will also benefit from the research finding. The main contribution of this research is also goes to the academic field. The loan customers will also benefit from the research in being long cycle's customer.

1.7 Scope of the Study

Study coverage was limited to the cause and effects of loan recovery and client drop out on Oromia credit and saving share company East Shawa Zone. Area coverage of this research proposal was limited to Oromia credit and saving Share Company in OCSSCO East Shawa Zone

1.8 Limitation of the Study

The research focus only on the cause and effects of poor loan recovery and client drop out on profitability of rural and urban group base loan product of Oromia credit and saving Share Company East Shawa Zone, since rural and urban group base loan product account 90% of all loan product.



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1.9 Organization of the Study

This paper has five chapters. The first chapter consists of the background section, statement of problem, the research questions, the research objectives, significance of the study, scope of the study, and limitation of the study and organization of the study. The second chapter presents a review of related literatures. The third chapter describes the research design and methodology. The fourth chapter is Data Analysis and Presentation of Results. The last chapter, chapter five, presents the conclusion and recommendations drawn from findings of data analysis and discussion.

CHAPTER TWO: REVIEW OF RELATED LITERATURE

2.1. Loan delinquency

Delinquency refers to loan repayment when a payment is late (CGAP, 1999). Delinquency is measured because it indicates an increased risk of loss, warnings of operational problems, and may help predicting how much of the portfolio will eventually be lost because it never gets repaid. There are three broad types of delinquency indicators: Collection rates which measures amounts actually paid against amounts that have fallen due; arrears rates measures overdue amounts against total loan amounts; and portfolio at risk rates which measures the outstanding balance of loans that are not being paid on time against the outstanding balance of total loans (CGAP, 1999). MFIs need a monitoring system that highlights repayment problems clearly and quickly, so that loan officers and their supervisors can focus on delinquency before it gets out of hand.

MFIs manager should at least monitor portfolio quality ratios on monthly, weekly or daily basis. Managers must be aware of the number and values of loans that have been rescheduled and this segment of the portfolio should be tracked



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separately. While repayment rate is typically cited as portfolio quality indicator (Craig, 2006), in practice it is not as effective as portfolio at risk because it does not reveal the full degree of vulnerability that an organization faces when a loan repayment is late. Portfolio at risk accounts for both; the loss that an MFI faces today due to late repayment and the potential loss that it faces if no future payments are made on that now delinquent loan. This brings us to the importance of financial ratio analysis in MFIs with a focus on portfolio quality ratios. According to Joana (2006), portfolio quality ratios include; portfolio in arrears: “arrears “ratio considers only the value of the past due payments; portfolio at risk at risk ratio considers the entire outstanding balance of loans that are delinquent by one or more payments

Both the portfolio in arrears and the portfolio at risk ratios help the institution to monitor loan repayment and the risk of default. The portfolio at risk figures is reported for 30, 60, 90 and 120 day delinquency levels in the portfolio report (Joana, 2006). This aging analysis is critical for a careful monitoring of the portfolio quality and for making an estimate of the provision required for loan losses. Aging of past due amounts also allows fund managers to determine if new policies implemented to control delinquencies are working.

In microfinance, loan loss ratio is a percentage of average outstanding balance for the period refers to the amount of loans written off in the period. All institutions will have some percentage of uncollectible loans, but well-managed institutions make keeping this percentage low their top priority (Beatriz, 2007). Many institutions resist writing off loans because of the belief that some of the loan may still be recuperated. Once a loan has been written off, collection efforts for this loan may continue if it makes economic sense. Loan write-offs are simply a



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prudent approach to financial management, not a legal acknowledgment that the borrowers no longer are in debt to the institution. Reserve ratio based on the historical default rate, indicates what percentage of the loans outstanding is expected to be unrecoverable. Prudent financial management and full disclosure would imply that this figure should reflect the maximum projected unrecoverable loans. The amounts of the reserve for loan losses (on the balance sheet) and the loan loss provision (on the income statement) should be based on historical information regarding loan defaults (Joana, 2006). When the reserve is created (or adjusted) on the balance sheet, the loan Loss provision is recognized on the income statement as an expense in an amount equal to the change in the reserve. Actual loan losses, or write-offs, are netted out of the gross loan outstanding and the reserve (on the balance sheet) and so do not affect the income statement when they occur, unless the amount written off exceeds the reserve

Some organizations include the loan loss expense in the operating costs. It is helpful to separate the loss provision as an indicator of portfolio quality. Ratio analysis is the most effective means of monitoring the pulse of an institution. Of course, numbers don't tell everything about an institution. Managers must continue to talk to clients and staff, paying attention to morale and perceptions, but this information is all the more valuable when supplemented with data.

It is widely believed that frequent repayment is one of the most important premises, in addition to group lending, for successful micro-credit programs (Pande & Field, 2008). To make on-time Repayments at weekly meetings, borrowers must nurture a sense of thrift and acquire a habit of constant savings, and thus, financial discipline is gradually built within them. Weekly meetings provide an opportunity for group members (and loan officers) to check on how other members (or borrowers') are doing in their businesses or whether there is a



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sign of financial troubles. All of these factors eventually come down to reduced default rates. Poor people have variety of financial needs and the informal sector has been quicker to respond to such needs than traditional banks by providing tailor made micro savings, remittances, leasing, and insurance services as well. The experience of many countries shows that micro financing can empower individuals and the informal business sector, thought to be uncreditworthy (Anon, 2002).

Microfinance therefore can well foster sustainable livelihoods and generate substantial nonfinancial benefits. This mean that microfinance not only proof that borrowers are able to pay their credit, but also that a dynamic cycle of sustainable livelihoods is created within a community, facilitating the collective ability to pay for clean water, to secure electricity and to significantly save time, benefit education and study during evenings, creating health and enabling better economic opportunities and productivity (Peeters, 2003). Such enormous achievement can only be attained through sound financial system with efficient micro lending practices. The role of the sustainable and responsible investment community has been invaluable and will continue to be crucial by critically rewarding sustainability leaders, assessing corporate sustainability risks and opportunities and by continuously pleading for transparency and governance practices. There is a critical need for a more integrated and sustainable microfinance system, with sound new mechanisms towards enhancing Kenyan micro financing security.



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2.1.1 Cause of loan delinquency

2.1.2. MFIs and Self help Groups (SHGs)) specific factors

The policy used by an MFI to define delinquent loans directly influences the portfolio quality ratios and the determinant of the MFI's level of risk. If an MFI defines past due (over due and delinquent) only after the loan term has ended, the portfolio quality ratios will mean little (CGAP, 2010). The date that a loan term ends has no relevance to the amount of time a loan is overdue. What matters is the amount of time that has passed since the borrower stopped making payments. Delinquency loans play a critical role in an MFI's expenses, cash flow, revenue and profitability. In developing a delinquency management system, strategies such as institutional culture, client orientation, staff and client incentives, delinquency penalties and enforcing contracts can be designed to balance the carrots (incentives) and sticks (penalties) (Craig, 2006). The loan process and procedures, governance and loan monitoring policies of a MFI have far reaching effects on delinquency performance.

Group lending model is one of the best practices in microfinance especially in Africa (Latifee, 2006). A group consists of two or more individuals. Any MFI that aims to increase outreach and achieve sustainability may have to do it through mass numbers, which is possible through groups. In many African societies, many poor people are already members of a group; either in the church or within their immediate community. Groups consist of individuals who have something in common; they come from the same community, they worship in the same church, they are the same age group or they simply work in the same market. Understanding the reasons for continued existence of such groups would help lending MFIs develop long lasting groups, which translates to long life client base. This would enhance client creditworthiness assessments, which has direct



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link to delinquency. Group solidarity and self-regulation which includes group constitution would be expected to facilitate loan repayment among group members. Therefore, group formation process may have a direct effect on loan delinquency among group members.

Saloner (2007) researched on the effect of Institutional Characteristics on default rate in developing world. The results showed that a focus on women as borrowers, on institutional incorporation into the community, and on client-led programming all lead to lower default rates and thus greater success. Pollio (2010) examined microfinance default rates in Ghana. He found that repayment is affected mainly by the number of dependents in the household, years in business, use of proceeds, loan status, and frequency of loan monitoring.

Field & Pande (2008) studied repayment frequency and default in Micro-Finance in India. They found no significant effect of type of repayment schedule on client delinquency or default. Their findings suggested that, among micro-finance clients who were willing to borrow at either weekly or monthly repayment schedules, a more flexible schedule could significantly lower transaction costs without increasing client default. Field and Pande study paid scant attention to factors that influence default rate which is the main focus of this current study.

Srinivasan (2007) researched on measuring delinquency and default in microfinance institutions in India. The study found that the “mature” (i.e. the rate after say an year of operations of an MFI) collection rate was a good measure for estimating default. In addition, the on-time collection rate was useful for estimating delinquency and only the primitive collection ratio, based on tracking each period’s loan disbursement identified shock in loan repayment. Srinivasan measured delinquency while this current study investigates factors influencing default rate.



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CGAP (2009) report on the delinquency crisis in southern Karnataka cited some of the causes of loan delinquency as; clients borrowing excessively from multiple lenders and then finding themselves unable to pay off their loans, poor client tracking systems; a downturn in the silk industry; poor collection practices and domestic problems. A few similar variables are examined by this study to find their relevance in loan delinquency in MFIs in Kenyan business environment. Schreiner (2003) studied cost-effectiveness analysis of the Grameen Bank of Bangladesh. He found that joint liability reduces risk as members have knowledge of individual character and can screen potential borrowers. Through peer pressure members mentor each other and can coax comrades out of arrears or even to repay their debts for them.

2.1.3. External factors affecting loan delinquency

The upheaval that hit mainstream financial markets and the reverberations that continue to be felt across the globe from the resulting economic crisis impacted MFIs and their clients. The early stages of the downturn saw MFIs experience significant liquidity shortages, but as the capital markets recovered, concerns turned from funding to asset quality (CGAP, 2010). This scenario points to links between external factors and loan delinquency. The relationship between the macroeconomic environment and loan quality has been investigated in the literature linking the phase of the business cycle with lending institutions stability. For instance, Fofack (2005) studied causal analyses and macroeconomic implication on loan default in Sub-Saharan countries. He used Pseudo panel-based prediction models to test real exchange rate appreciation, net interest margins and real interest rate. His results showed that, macroeconomic stability and economic growth are associated with a declining level of default; whereas adverse macroeconomic shocks coupled with higher cost of capital and lower



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interest margins are associated with a rising scope of nonperforming loans. This research study deviates from Fofack study in that, only economic downturn is taken as a macroeconomic factors and this study focuses exclusively on microfinance institutions operating in Kenyan economic environment. Waweru & Kalani (2009) studied commercial banking crises in Kenya. They found that some of the causes of non- performing loans in Kenyan banks were national economic downturn, reduced consumer, buying ability and legal issues. This current study appreciate that the nonperforming loan and loan delinquency concepts are similar. However this study differs significantly from Waweru & Kalani (2009) in terms of area of study, and study methodology.

These researchers covered commercial banks in Kenya while this current study focuses on microfinance institutions in Kenya. The banking and microfinance sectors operate under different regulatory authorities. The study of Dinos & Ashta, (2010) on financial crisis: Lessons from microfinance argued, that microfinance is essentially informal and typically directed to entrepreneurial activities that are not linked to the global economy (with the exception of cash crops and tourism-related micro businesses), which suggests that the impact of global economic events should not be significant.

Further they stated that the microfinance sector at large was continuing to experience growth where mainstream providers of financial services were retrenching in the context of the international crisis. This study seeks to find whether such an arguments is valid in MFIs operating in Kenyan business economic environment.

2.1.4 Causes of default/delinquency in MFIs in Ghana

The following were the causes of loan default enumerated by the clients: Late disbursement of the loan, business failure, unfavorable payment terms, high



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interest rate, and inadequate loan sizes, unforeseen contingencies, for instance illness and death of a family member, lack of training for the clients before and after disbursement.

These confirm the findings of the study by a number of researchers. For instance Vandel (1993) and Okpugie (2006) in separate studies found that high interest rate charged by microfinance institutions is a major cause of default among the microfinance clients.

Balogun and Alimi (1988) also identified the major causes of loan default as loan shortages, delay in time of loan delivery, small farm size, high interest rate, age of farmers, poor supervision, non profitability of farm enterprises and undue government intervention with the operations of government sponsored credit programmes.

The MFIs also identified some of the major factors of default/delinquency in MFIs in Ghana to include poor appraisal, lack of monitoring or improper monitoring, improper client selection, diversion of funds on the part of clients, unwillingness of clients to pay, lack of training for the clients, illiteracy and inadequate skills of clients, poor business practices, and macroeconomic factors, poor management styles among others. These factors or causes confirm the findings of the study conducted by Ahmad, (1997), who found that lack of willingness to pay loans coupled with diversion of funds by borrowers, willful negligence and improper appraisal by credit officers are some of the causes of loan default.

2.2 Drop out and microfinance:

As stated earlier, previous studies cited a varied list of factors leading to clients' dropouts. For the purpose of the present study, we have grouped them into three



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mains groups: supply reasons, demand reasons and environmental reasons in order to show which group of reasons affected more client exit.

2.2.1 Supply reasons

This group of factors refers to inadapted products, staff attitude offered by microfinance institutions, and the competition of the financial sector (formal and informal institutions).

In adapted products

Many authors in microfinance literature found that financial services of MFIs are inflexible. Guérin (2009) has shown that MFIs still had difficulties to adapt their offer to the diversity of clients' needs. Hulme and Mosley (1999) have pointed to similar observations and therefore have called MFIs to more diversification of products and segmentation of the clientele in order to better serve them. In the same line of ideas, Wright (1999) has stated that MFIs would gain by standardizing less their products and services. He has emphasized as has Hulme et al. (1999) that, much of this standardizing problem is driven by the attempts to "replicate" products and services from foreign cultures without taking into account the socio economic environment into which they are being imported. Thus, when MFIs products and services do not meet clients' needs, there is a high dropout rate. Loan size, delays in loan disbursement, repayment schedule, costs of loan, loan eligibility criteria, group lending issue are the variables most cited as proof of this in adaptation.

Loan size

Hulme et al. (1999) have pointed out that many clients voluntarily withdrew from MFIs due to the loan amount. In fact, the group has shown that, when the loan



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amount is small, leading wealthier clients to dropout. The opposite holds insofar that when the loan amount is increased, poorer clients voluntarily dropout. Repayment schedule and delays in loan disbursement .Musona and Coetzee (2001) have highlighted that the repayment schedule was perceived as too rigid and therefore not adequately taking into account the realities of micro businesses. Hulme et al. (1999), in the same line of thought, have observed that a long period of waiting for disbursement of a loan, most of the time, pushes clients out of MFIs (Hulme et al., 1999). This means that the longer the loan disbursement takes the more clients exit from MFIs.

Group lending

Problems related to group borrowing concerned group dynamics issue such as group size, group liability and the lack of time for weekly meetings (Painter and Mc Knelly, 1998; Mustafa and Al, 1996; Wilson, 2001; Meyer and Al, 2001; Wright, 1999).

Staff attitude

In a study done in South Africa, Stark and Nyirumuringa (2002) have shown that the lack of products and services information between management staff and clients lead to clients' dropouts. However, Urquizo (2006) has a different opinion about the quality of services. He contends that the staff attitude rarely accounts for clients' desertion, because the clients have lower expectations towards it. He gets support from Dackauskaite (2009) whose study was carried out in Ethiopia.

Competitive environment

As far as the competitive environment is concerned, many authors have recognized that over the past few years, microfinance sector has faced high



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competition. The so many institutions which have been created over the last years and which are competing in the same market account for the above. As observed by Wright (2001) and Pagura (2004), dropouts are frequent because of dissatisfaction with the financial services being offered by one MFI and the belief that other MFIs or other financial institutions can offer better facilities. Thus, they switch from one financial institution to another. In brief, in adapted products and competition have been unanimously recognized by the microfinance practitioners, as reasons, which lead to high dropout rate.

2.2.2 Demand reasons

This group is more related to crisis reasons, socio economic characteristics and clients' maturity.

Crisis reasons

It is stated by many practitioners that microfinance allows poor people to increase their income and assets and decrease their vulnerability because households have better health outcomes (Morduch and Hashemi, 2003; Armendáriz and Morduch, 2007). Therefore, microfinance is being seen as a virtuous circle which has increased well-being, economic, social and political empowerment especially of women. However, sometimes, the reality is often much complicated. Some studies have shown different results: over-indebtedness of many clients, reallocation of loan, clients' delinquency and the decrease of schooling levels (Meyer et al., 1999). One reason for the conflicting results could be that the poor face continual risks and unexpected events such as illnesses, death of a family member, the loss of a job, funeral expenses and wedding or children's education.

Client maturity



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Client maturity means that clients will take larger loans to expand or maintain the working capital of their business or to finance asset acquisition (Wright, 1999; Simano with, 2000; Dackauskaite, 2009). Client maturity also means that clients will accumulate enough capital and they do not need another. Therefore, this phenomenon can also lead to clients' exit. In the same of thought, Wright (1999) has shown that there were two schools of graduation: One held that after a limited number of subsidized loan cycles, the beneficiaries would no longer need credit. However, for Wright, this was a supreme naïveté, because there is scarcely a business in the world that does not use overdraft facilities. The other school, more plausibly, believed that poor clients could "graduate" with enough wealth and self-confidence to become the clients of commercial banks.

In their East African studies, Wright et al. (1999) has observed that socio economic characteristics and crisis reasons play a tremendous role in the reasons that lead to clients dropouts. However, based on the above development and considering that this study will be done in Mali, one of the poorest countries in the world, Malian people will be more vulnerable to financial difficulties due to crisis as illness, death of a member, or loss of job. It seems scarce that client maturity be the reason of the high dropout rate.

2.2.3 Environmental reasons

Environmental reasons are linked to downturn in the national economy and adverse climatic conditions. Clients generally served by MFIs have fewer assets and their income is not diversified. Thus, the poor are more vulnerable to financial difficulties due to economic downturns or other crises. All the African MFIs studies have reported that dropout rates increase when there is a bad economic climate, seasonality and natural calamities (Wright and al., 1999;



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Meyer et al., 2001), because clients have fewer ways of coping with such events and are more likely to drop out. African countries as others faced climatic conditions these last years. However, in Africa more than other countries, people who face economic downturns or other crises receive fewer supports.

2.3 Empirical Findings Client Exit of Gasha Micro Financing S. Co.

Aiste Dackauskaite, (2009) conducted a research to investigate the very reasons of the client drop out from Micro Finance institute in general and specifically in Gasha Micro Finance S.co.

In case of Gasha, none of the clients indicated quality of service as the main reason for exit and only in rare instances the clients pointed out that dissatisfaction with characteristics of the loan forced them to leave the microfinance institution or to switch to another one that offered products more suitable for their needs. Clients in the two loan categories experienced exit because of discontent with the loan attributes and they all indicated that they deserted, as the loan amount was too small, the interest rate was too high and the contract period was too short.

In group guaranteed contracts, an important aspect of product design that caused client exit was the lending methodology. Some of the clients interviewed noted that they were dissatisfied with the joint liability contracts and expressed their preference for individual loans, which they were not able to take because they could not meet the collateral requirement; therefore, they have opted to exit altogether rather than carry on taking group loans. The clients were also discouraged to take another loan because of the previous experience of paying the debt for someone else in the group.

The research has also investigated that the clients were afraid that they would have to pay the debts of other group members again, thus they decided to leave. In



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addition, mischief or mistrust in the group and inability to work together were also cited as the reasons for exit. Some clients had to desert, as the group was not willing to take any more loans and the group disbanded.

The research has also shown that the clients with group loans were also leaving because of the adverse circumstances that undermined their financial capabilities. The clients suffered from unfavorable environmental influences that affected the performance of their businesses or idiosyncratic shocks that hampered the ability and capacity of the client to continue business at the same level. Instability in the market, increasing input prices, decreasing purchasing power of customers and consequently lower profits as well as illness or death in the family was the reasons to account for client exit.

In the accounts of clients with individual loans, the research pointed out that the most often mentioned reason for exit was graduation, or maturity. The clients graduated when they met their consumption needs, accumulated enough capital or simply when they did not need another loan. Yet majority of graduates admitted that they were considering taking new loan in the future. Apart from graduation, the clients with individual loans stopped participating in the microfinance program because of financial difficulties that were caused either by poor performance of business or by illness or death in the family. The clients with consumption loans also admitted that the increase in prices and little income made it difficult to repay the loan; therefore, they decided to stop borrowing.

As could be noted from the above-discussed reasons for exit, all the factors indicated in the theoretical framework affected client exit, except for the quality of service – a factor on the supply side-which was not mentioned as a reason for exit supporting the views of Urquizo (2006) that quality of service rarely accounts for client desertion, as the clients have lower expectations towards it. Considering



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the other supply side factors, the dissatisfaction with product design and attributes seemed to play a greater role in inducing client exit than competitive environment especially in case of clients with group loans many of whom left because of the dissatisfaction with or limitations of group lending technology.

The shocks that the clients experienced either environmental (systemic shocks) or idiosyncratic (life-cycle emergencies) were too among the factors to account for client exit showing that clients' possibilities to stay in the banking relationship depend on their capacity to handle adverse circumstances.

In terms of push or pull factors, it could be pointed out that clients with group loans were more likely to leave because of adverse push factors while the pull factors usually expressed through graduation or maturity were more likely to be experienced by clients with individual loans. The push factors particularly affected the clients who were engaged in business activities that sensitively reacted to the changes in the economic situation. The idiosyncratic shocks like illness or death of the family member also worked as a major factor that pushed the clients out of the microfinance program. The competitive environment seemed to have only limited effect in pulling clients out of the relationship, as only one client indicated to have left for another microfinance institution.

The majority of complaints related to product characteristics were pointed towards high interest rate and small loan amount, which was highlighted by the representatives of all loan groups. The clients with group loans expressed their dissatisfaction with weekly payment method and gave preference for payments made on monthly basis. Some clients pointed out that the fine for late payment was too high.

2.4. Non performing Loan (NPL) In Financial Sectors.

The relationship between credit risk and commercial banks performance has been



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the concern of emerging studies both in developed and developing countries. From the studies on this subject matter we presented some of the recent studies in this subsection. Poudel (2012) studied the factors affecting commercial bank performance in Nepal for the period of 2001 to 2012 and followed a linear regression analysis technique. The study revealed a significant inverse relationship between commercial bank performance measured by ROA and credit risk measured by default rate and capital adequacy ratio. Hosna et al. (2009) also found similar result with Poudel in his study of four Swedish banks covering a period of 2000 to 2008. The result showed that rate of non-performing loan and capital adequacy ratios was inversely related to ROE though the degrees vary from one bank to the other. Such inverse relationships between profitability performance and credit risk measures were also found in other studies (Achou and Tenguh, 2008; Funso et al., 2012; Musyoki and Kadubo, 2012). Though there are a number of empirical studies evidencing the negative and significance relationship of credit risk and commercial banks performance, concluding about this issue is somewhat difficult, because there are papers that come across with different results. For instance, Boahene (2012) found a positive and significance relationship of commercial banks performance and credit risk in his study of six Ghanaian commercial banks covering a period of 2005-2009. The panel data analysis model employed in the study revealed that indicators of credit risk, namely: non-performing loan rate, net charge-off rate, and the pre-provision profit as a percentage of net total loans and advances were positively related with profitability measured by ROE. The author suggested that Ghanaian commercial banks enjoy high profitability at time when the levels of credit risk variables are high. It is reasoned out on this study that this might be, because of prohibitively lending/interest rate, fees and commissions. The prevailing relationship between



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profitability and credit risk is further complicated by the finding of Kithinji (2010). Employing a regression analysis on data collected from financial reports of commercial banks in Kenya for the period of 2004 to 2008 concluded that profitability of commercial banks measured by ROA did not show significant relationship with credit risk measures.

Studies on the relationship between credit risk and profitability performance of Ethiopian commercial banks are few though many studies documented that credit risk is among the major challenges of banks in Ethiopia. Of these studies, Tefera (2011) and Mekasha (2011) each studied the effect of credit risk management on the performance of commercial banks in Ethiopia. Both used secondary data from annual reports of commercial banks and survey of primary data from bank managers and officers which similarly showed that there is a negative relationship between credit risk and performance of commercial banks in Ethiopia.

2.5 Cost of MFI

MFIs that provide multiple microfinance services face various costs. In general it can be distinguished between costs related to financial services and functionally separate costs (direct and indirect costs). Sometimes it is not possible to separate or segment costs of MFIs easily because non-financial services, such as consultancy, training and technical assistance, are necessary to ensure a good credit behavior and risk minimizing. Costs that occur due to non-financial services are often cross-subsidized by financial service earnings. Costs directly attributable to the micro-financial services include for instance personnel expenses (e.g. salary for loan officers), refunding of staff transportation and training for loan officers, loan loss provision, and interest expense on borrowings that refinance the loan portfolio (Helms, 1998). Further the costs of MFIs can be generally categorized in fixed (e.g. office rent) and variable costs (e.g. travel



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expenses to meet clients) (Churchill and Frankiewicz, 2006, 338). In general MFIs gain relatively little from economies of scale because microcredit is rather labor intensive: salaries make up the majority of most MFIs' operating expenses and fixed costs are relatively low compared with variable costs (Rosenberg, et al., 2009). Operating expenses of MFIs include most often personnel and administrative costs and represent a major part of charges to borrowers.

Cost per borrower indicates an institution how much it currently spends in personnel and Administrative expenses to serve a single borrower. It informs the MFI how much it must earn from each borrower to be profitable.

Since the loan portfolio represents the biggest asset of a MFI, the nonpayment of a loan is not only the biggest risk a MFI might face, but also a cost center that is often underestimated (CGAP, 2001, 10). Also here the accounting for loan delinquency varies enormously among MFIs, but practically there are only two alternatives. Some of the institutions reschedule unpaid or non-performing loans with the borrower immediately while others write them off after it is sure that the loan cannot be paid back after a certain time period of default. The liquidation of Collaterals like in a commercial bank are not an option since the business-model as such does not require them as a prerequisite of lending to a client.

In general every MFI has a certain percentage of loan loss provision in its profit and loss account that needs to be considered as major costs from the outset. In order to give a practical example of how this might look like, the practices of Grameen Bank are briefly showed. Grameen Bank has a 1 percent loan provision on regular loans and a 100 percent loan provision on overdue loans (overdue means 10 consecutive installments were not paid). The overall repayment rate of Grameen Bank in 2007 was 98, 02 percent (Grameen Bank, 2009).



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2.6 How clients' dropout can affect MFIs

The majority of MFIs worldwide suffer chronic problems with client leaving their programmes (Wright, 1997b: 2). These dropout problems can affect the sustainability of MFIs that is highly needed for the realization of their objectives of reducing poverty. As such there is a need for MFIs to reduce the dropout of their clients to avoid negative impact on their sustainability.

This is in line with Latiffee's (2005), argument that dropout is not good for the MFIs since it cannot only cost them but it may also affect the productivity and morale of staff as is argued,

Dropout is a cost to MFIs both in human and business terms; and it is unwarranted for the institution. No MFI enrolls any member, just to say goodbye. It invests time, energy and money in selecting and training them so that it can have a well-motivated clientele with hopes and determination of overcoming poverty. When someone drops out, it is a loss for the programme as it not only decreases the total number of members and borrowers, but also causes a decrease in the amount of loans outstanding and operating income for the MFI.

Dropouts create incomplete groups and, in turn incomplete centre, leading to breakdown of credit discipline and contributing to low productivity of the staff. It sends a wrong signal to other members and a wrong message to the community. It damages its image and it delays sustainability. Dropouts also contribute to the overall lowering of morale within the programme. Not only does the operation of the MFI suffer from the dropouts, but also its progress is hindered and its longterm plans disrupted (Latiffee, 2005: 1).

Clients dropout also has a profound implication to the MFIs in terms of increasing costs and destabilization of groups from which dropout occurs since;



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High dropout rates cost MFIs dearly. The groups from which members drop out are destabilized and must recruit new (less experienced) members, who will qualify for smaller loans thus reducing the overall interest income for the institution. The members who have been with the organization longer, qualify for larger loans, and the newer, replacement members can only get access to smaller ones. Despite this, the newer members have to take a disproportionate risk and guarantee the larger sums taken by their fellow group members, adding further stress to the group guarantee principle. Furthermore, each dropout is a lost client who has undergone lengthy, expensive training. In addition, in the face of frequent or multiple dropouts, some of the groups may disintegrate entirely (Wright, 1997b: 2-3)

In regard to the sustainability of MFIs Morduch (2003) in Chapter argued, “less than 1% of MFIs have achieved financial sustainability and that perhaps another 5% will do so in future” (Morduch, 1999: 1587). By applying a simple calculation on Morduch’s statement, if only 5% of MFIs will achieve their sustainability in the future it means that the rest of MFIs, about 95% are not sustainable mainly due to dropout problems. There may be other factors that may affect the sustainability of MFIs such as delays in loan repayments, narrowly defined financial products and inefficient allocation of resources (Pagura, 2003: 2). However, dropout can greatly affect MFIs because if clients are lost then resources invested on them through training are also lost. This may in turn retard its growths in that the lost resources could have been used to recruit new members and provide new loans (Stark and Nyirumuringa, 2002: ii).

Worse still if old clients are dropping out then the loss may be bigger to MFIs, because the older clients’ with bigger loans pay relatively higher interests. This is line with the argument that valuable clients to be retained are the ones with



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extensive credit history and who are accessing larger higher value loans (Wright, 1997b: 2). Dropouts also increase costs because of the necessity to train new replacement clients as is argued, “a new replacement member must also be given training” (Wright, 1997a: 3). This indicates that dropout is really a serious problem facing MFIs since it affects not only their profitability and sustainability but also their objectives of reducing poverty as is argued;

Lost customers place our social agenda in peril. How can the empowering benefits of microfinance take place if our clients flee after one loan cycle? Worse enough we may be losing our poorest clients, those whom we most want to serve (Wilson, 2001: 17)

Dropout is also a problem particularly when clients are complaining about MFIs services that do not meet their needs. So if dropouts are complaining then they are not only tarnishing the image of the institution but they may be deterring others from joining and accessing its services. This is in line with the argument that, “if desertion is high it is possible to have a market filled with more ex-clients many of whom are likely to complain about your institution than current clients!” (Waterfield, 2006: 2), hence affecting the public image of the institution. Matul and Pawlak (2004) have also indicated how dropout can undermine the performance of MFIs arguing that,

Since success of MFIs depends on their ability to build a long-term relationship with its clients, the loss of clients can undermine the MFIs efforts to maintain these long-term relationships necessary for their successful performance. As a result clients' exits can be considered as an important factor that reduces effectiveness and it needs proper diagnosis, understanding and management (Matul and Pawlak, 2004: 1)



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This shows the need for MFI to reduce clients' dropout through proper management to avoid negative impact on their performance. Stark and Nyirumuringa (2002), also argue that dropout can affect MFIs in four different ways:

- *Loss of money: the resources invested in a new member are lost.*
- *Loss of income: the income that would have come from the increasing loans are lost because the larger the loan the member would have taken, the greater is the loss to the organization.*
- *Damage to growth: dropouts reduce morale in the centers from where they drop out, and this may make other members to drop out more and above all it may also make it difficult for staff to recruit new members.*
- *Damage to staff morale: high number of dropouts make staff feel that they are failing or not achieving what they hope for and so, low staff morale reduces productivity and leads to poor growth and more dropouts (Stark and Nyirumuringa, 2002: ii)*

The above argument indicates that dropout can seriously affect MFIs if they do not take measures to reduce it. Consequently MFIs should try to be proactive in finding out why their clientele drop out, how costly and damaging it is for their programmes, and how they can reduce dropout rates to protect themselves from its negative impact (Latifee, 2005: 1).

To retain clients Beroff (2000) also argues that, “since the majority of MFIs now seek to make profit and achieve long-term sustainability, efforts should be made to improve the quality of services and to adapt them to demand so as to maintain membership levels” (Beroff, 2000: 7). This can improve the profitability of MFIs and may enable them to offer loans on a sustainable basis.



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2.7 Profitability of MFI

It is widely known today that providing loans to micro-entrepreneurs has a relatively attractive potential to generate profits and growth. In some areas, like Asia, Africa and Latin America the profitability of MFIs is already squeezed by greater competition in the industry (Lascelles, 2008).

It is widely known today that providing loans to micro-entrepreneurs has a relatively attractive potential to generate profits and growth. In some areas, like Asia, Africa and Latin America the profitability of MFIs is already squeezed by greater competition in the industry (Lascelles, 2008)

Return on Equity (RoE) is calculated by dividing net income (after taxes and excluding any grants or donations) by period average equity. Return on equity indicates the profitability of the institution. This ratio is particularly relevant for a private for-profit entity with real flesh-and-blood owners. For them, RoE is a measure of paramount importance since it measures the return on their investment in the institution. However, given that many MFIs are not-for-profit-organizations, the RoE indicator is most often used as a proxy for commercial viability.

A single year's RoE can at times misrepresent the institutions true profitability. Extraordinary income or losses, for example in the form of asset sales, can have a significant impact on the bottom line. In other circumstances the institution may severely under-provision and thus temporarily record higher net income figures. Another issue to consider is taxes. Incorporated and supervised MFIs generally pay taxes, while not-for-profit, non-supervised MFIs do not; reporting and other requirements of bank regulators also add to the costs of supervised institutions.



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2.8 Chirwa's Theoretical Framework

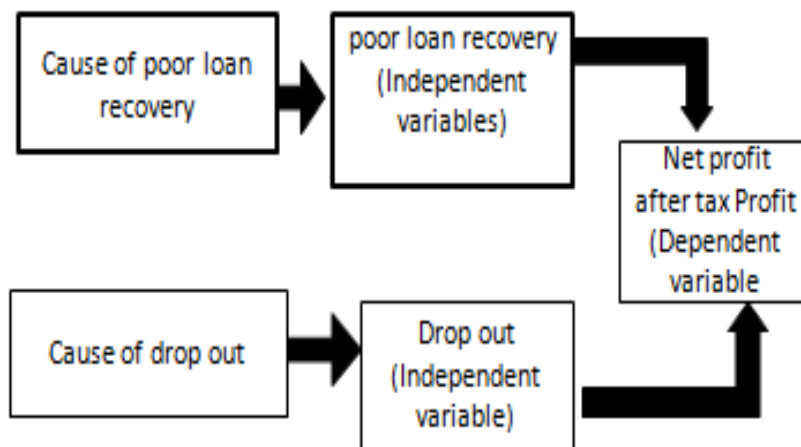
Chirwa (1997) specified a probity model to assess the determinants of the probability of credit repayment among smallholders in Malawi. The model allows for analysis of borrowers as being defaulters or non-defaulters. The theory is relevant to this study in that the loan repayment by the borrower is dependent on various aspects such as the MFIs monitoring financial and business performance of the borrower, the state of the country's economy and diversion of the loan funds by the borrowers to other purposes not agreed upon.

2.9 Conceptual Framework

The diagrammatic representation of conceptual framework shows how the variables are related. Because an effect of Poor loan recovery and client drop out are independent variables where as East Shawa Zone profitability is a dependent variable, which depends on the occurrences of the said independent variables.



Researchers Conceptual frame work



The researcher construct this conceptual framework based on Chirwa's Theoretical Framework.



CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

Research design is the plan and structure that guide researchers in their investigation into a phenomenon (Kotzar, Seuring, Muller, & Reiner, 2005)

To achieve the objective of the study and arranging conditions for collection and analysis of data the researcher used descriptive and explanatory type of research design because it is appropriate to researcher to find out about cause and effect of poor loan recovery and client drop out on profitability of the company.

3.2 Sample Frame

In the study area, there are 15 branches those provide group base loan for urban and rural client. From the total branches, those provide group base loan 5 branches having a life span of 3 years and above from the time of establishment were selected as sample frame, because considering a longer life span branch as a sample frame able to examine cause and effect of poor loan recovery and client drop out on profitability of the company.

3.3 Population:

The population of the study was all sampled branches of East Shawa Zone and those 250 clients with mature but unpaid balance and those clients dropped from financial service of OCSSCO East Shawa Zone in sample branches

3.4 Sampling Techniques

The researcher used random Cluster sampling as cluster sampling is more preferable when total area of interest happens to be a big one, a convenient way in which a sample can be taken is to divide the area into a number of smaller non-overlapping areas and then to randomly select a number of these smaller areas



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(usually called clusters), with the ultimate sample consisting of all (or samples of) units in these small areas or clusters. In cluster, sampling the total population is divided into a number of relatively small subdivisions, which are themselves clusters of still smaller units and then some of these clusters are randomly selected for inclusion in the overall sample. Accordingly, due to nature of branches under East Shawa Zone, which is convenient for cluster, sampling to enhance equal participation of members of respondents from each branches the researcher will use simple random cluster sampling technique to give every member of the population equal chance of being included in the sample.

3.5 Sample size

OCSSCO East Shawa Zone currently has 15 branches those provide rural group base financial services. Out of which 5 branches were selected randomly for the study. From those selected branches, of 250 total populations the researcher selects 148 respondents with similar percentage from each branch. Krejcie and Morgan Sample size determination technique was used to determine optimum size.



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Table 1. sample population, and sample size

Ser no	branch name	Sample population	Sample size	Percentage from each branches
1	Modjo	31	18	58.1
2	Adama	51	30	58.8
3	Olanchiti	80	47	58.8
4	Bora	12	7	58.3
5	Bole	76	46	59.3
	Total	250	148	59.2

Source primary data 2016

3.6 Sources of Data and Methods of Data Collection

Sources of Data

Data are the basic input to any decision making process and the processing of data gives statistical importance of the study, so that both secondary and primary data were collected to meet the objectives of the study.

The primary data: data collected from client with unpaid loan balance and from client quieted though questioners.

Secondary data: Audited financial statements of OCSSCO East Shawa Zone from 2006 up to 2015.



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3.7 Data Collection

To examine cause and effect of poor loan recovery and client drop out on profitability of East Shawa Zone primary data were collected by closed ended questions from client with past due loan and from client quieted from East Shawa Zone five randomly selected branches.

3.8 Data analysis method

The data collected from survey questionnaire were carefully coded and checked for consistency and entered into the SPSS spreadsheet. To conduct inferential analysis SPSS ver. 16 and Eview was used to run the Pearson correlation and regression between the independent factors and dependent factor with respect research objective.

Validity, Reliability and Ethical Issues

Validity and reliability of the research measurement instruments influence, first the extent that one can learn from the phenomena of the study. Second the probability that one will obtain statistical significance in data analysis and third the extent to which one can bring meaningful conclusion from the collected data. Most ethical issues in research fall into one of the four categories: protection from harm, informal consent, right to privacy and honesty with professional colleagues (Leedy and Ormrod, 2005).

Validity

According to Leedy et al (2005), validity is the ability of an instrument used to measure what it is designed to measure. They further explained two basic questions: does the study have sufficient control to ensure that the conclusions the researcher draw are truly warranted by the data and can the researcher use what he/she has observed in the research situation to make generalization to the



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population beyond that specific situation? The answers to these two questions address the issues of the content validity, internal validity and external validity.

Content validity

In order to check content validity for the descriptive survey studies, Leedy et al., (2005) suggests three tactics: using multiple sources of evidence, establishing chain evidence and having key informants reviewing draft of the study report.

To ensure content validity the researcher conduct pilot test on branches out of sample. Further randomly selected respondents were those who know better about the issue being investigated.

Internal validity

The internal validity of a research study is the extent to which its design and the data it yields allow the researcher to draw accurate conclusions about the relationships within the data. Concerning internal validity the researcher conclude the result based on international accepted soft ware SPSS and EVIEW result and analysis in relation to research objective

External validity

External validity is related to the extent to which the findings from one research can be applied to other similar situations. In other words, how the conclusions drawn can be generalized to other contexts (Leedy et al., 2005). According to Leedy et al, these three strategies are: a real life setting, a representative sample and replication in different settings Leedy et al (2005). To ensure face validity the researcher performed multi method approach i.e. descriptive analysis, correlation, and regression analysis.

Reliability

According to Leedy and Ormrod (2005) reliability of a measurement instrument is the extent to which it yields consistent results when the characteristic being



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measured has not been changed. Furthermore, Cameron et al., (2007) states that in order to increase reliability, the researcher should use the same template as far as possible and use static methods. Cronbach's Alpha is commonly used to test the reliability for a set of items. In this study, the Cronbach's Alpha is 0.880 that indicates a good reliability of the factors. Cronbach's alpha should be equal to or greater than 0.70 Jalil et al. (2013) stated that Cronbach's alpha is a commonly used method where alpha coefficient values range between 0 and 1 with higher values indicating higher reliability among the variables.

3.9 Ethical Consideration

There was certain ethical protocol that was followed by the researcher. The first is soliciting explicit consent from the respondents. This ensures that their participation to the study is out of their own volition. The researcher was also ensured the respondents were aware of the objectives of the research and their Contribution to its completion.

The first and the most important thing in ethical consideration is confidentiality of information collected from respondent. With this regard the researcher kept confidentiality of the information given by respondent and treating the respondents with respect and courtesy. This was done so that the respondents were at ease and is more likely to give candid responses to the questionnaire.

There was also ethical measure that was followed in the data analysis.

To ensure the integrity of data, the researcher checked the accuracy of encoding of the survey responses with due care. This was enabled the statistics that was generated from the study to be truthful and verifiable



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CHAPTER FOUR: RESULTS AND DISCUSSIONS

Introduction

This chapter provides the findings obtained from the collected data along with discussions explaining the findings of the study. The primary information was collected from clients of Oromia credit and saving share company East shawa branches through a questionnaire, and the secondary data of ten year audited financial information collected from East Shawa Zone.

4.1 Discussion on Demographic variables

The demographic statistics for 140 respondents are gender of participants dominated by male (Male = 97, Female = 43).

Table 2. demographic variables

Gender	Frequency	Percent
Male	97	69.3
Female	43	30.7
Total	140	100
Age	Frequency	percent
18-28	22	16
29-39	61	44
40-50	48	34
51-61	9	6
Total	140	100
Serviced Year	Frequency	Percent



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1-3 Year S	59	43
4-7 Years	72	50
8-11years	9	7
Total	140	100

Educational Level	Frequency	Percent
Below Grade 1	47	34
Grade 1-6	56	40
Grade 7-12	24	17
Certificate	3	2
Diploma	10	7
Total	140	100

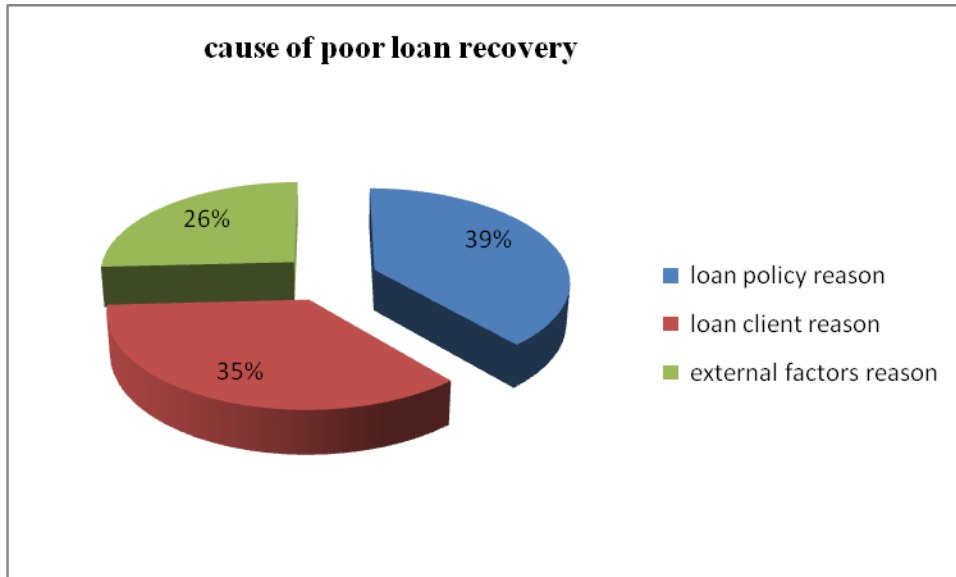
Source primary data for the year 2016

Ages of participants are categorized into four where (18-28 covers 16 %); between ages 29-39 cover the highest 44%; between 40-50 is 34 %; 51-61 is 6 %). Respondent service in financial institute 1-3 years 43% (n=59) 4-7 years 50% (n=72) where 8-11 years account 7% (n=9). Regarding their educational level below grade1 34 % (n=46) grade 1-6 40% (n=56) grade 7-12 17% (n=24) certificate 3% (n=2) has diploma, 7% (n=10).



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Figure 1. Cause of poor loan recovery



Source primary data collected though questionnaire .

The Descriptive Statistics on figure 1. indicate that loan policy reason contribute 39 % for cause of poor loan recovery ,loan client reason contribute 35% for cause of poor recovery and external factors contribute only 26% to poor loan recovery. From this we observe loan policy reason and loan client reason contribute more to poor loan recovery.

Correlation Analysis Result

Pearson correlation coefficient used to investigate the relationships between poor loan recovery reasons (loan policy and loan client reasons) and out. The outcomes of Pearson correlation coefficient found statistically significant correlations between each reason of poor loan recovery and poor loan recovery ((loan policy and loan client reasons respectively ($r=.593$, $df=70$, $.773$ $df=70$)).

(See annex D page XIX)



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Table 3. Model summary table find out over all cause of poor loan recovery.

R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics	F Change	df1	df2	Sig. F Change	Durbin-Watson
0.848	0.720	0.711	0.256	0.720	86.0	2.000	67.0	.000	1.477

Source primary data for the year 2016 collected though questioners

Regression result

Checking for multiple regression assumptions, Normality, linearity, and homoscedasticity was performed. (It is attached as annex G page XIX)

Model summary

The output of regression in model summary describes whether the model is successful in predicting loan recovery or not. Entre method used to identify statistically determinant variables in predicting the dependent variable. The value of multiple correlation coefficients between the predictor and the outcome is indicated by R. R value is found .0848 shows correlation between poor loan recovery reason and poor loan recovery. R² is the measure of how much of the variability in the poor loan recovery is accounted for by predictors. In this study, R² is found .720. This value indicates that poor loan recovery reasons contribute 72% of the variation in poor loan recovery (see table 3). Since the difference between R² value and adjusted R square is very small we used R² as model for generalization.



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Table 4. ANOVA table to find out over all significance

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	11.284	2	5.642	86.004	.000 ^a
Residual	4.395	67	0.066		
Total	15.68	69			

Source primary for the year 2016 data collected though questioners

The ANOVA table shows that the computed F statistic is 86.004, with an observed significance level less than .0001. The model overall resulted significantly good degree of prediction over poor loan recovery (see table 4).

Table 5. Regressions Coefficient table to find out cause of poor loan recovery and factors those contribute more to poor loan recovery.

	Unstandardized Coefficients		Standardized Coefficients		Sig.	Correlations		
	B	Std. Error	Beta	T		Zero-order	Partial	Part
(Constant)	.432	.255		1.689	.096			
loan policy reason	.369	.068	.371	5.396	.000	.593	.550	.349
loan client reason	.414	.044	.646	9.384	.000	.773	.754	.607

Source primary data for the year 2016 collected though questioners.

Model formula Poor loan recovery =0.432+0.369*loan policy+0.414*loan client



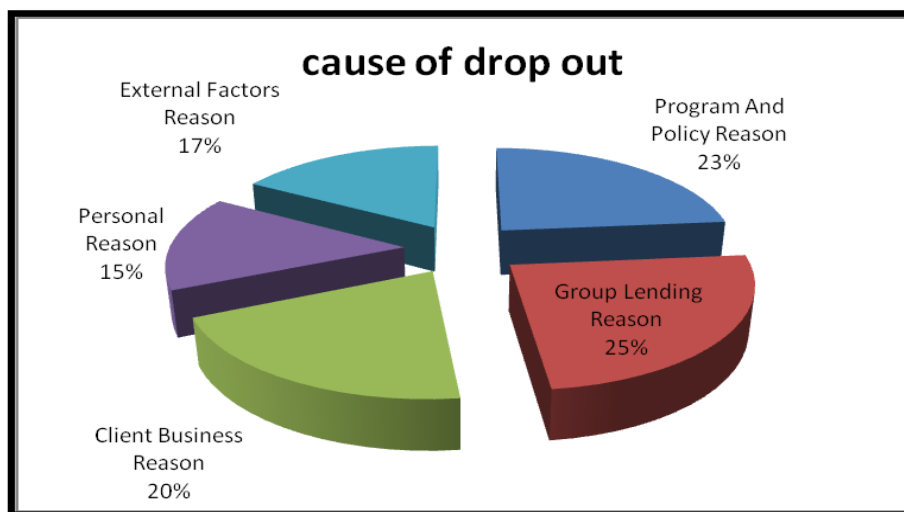
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Table 5 shows a strong positive relationship between the three variables. Specifically this table reveals that loan client reason is positive and significantly, (t-value 9.384) related to loan poor loan recovery in OCSSCO East Shawa Zone. The estimated regression coefficient ($\beta = .414$) for loan client reason variable implies that an improvement in loan client reasons by one unit leads to a corresponding 0.414 decline in poor loan recovery rate in East Shawa Zone. In addition, table 4 analysis of the data reveals a positive and significant (t-5.396) relationship between loan policy reason and loan delinquency. This suggests that, a unit increase in loan policy reasons specific factors ($\beta = 0.369$) leads to a corresponding 0.414 decline in poor loan recovery. This implies that the independent variables (loan policy reason and loan client reason) have major effect on loan delinquency. Loan client reasons factors contribute to loan poor loan recovery at a higher magnitude ($\beta = .414$) followed by loan policy reason ($\beta = .369$) poor loan recovery.



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Figure 2. Cause of Drop Out.



Source primary data for the year 2016 collected through questioners.

The descriptive Statistics on figure 2. indicate group lending reason contribute 25 % to cause client drop out ,program and policy reason contribute 23 % to client drop out ,client business reason contribute 20% to client drop out external factors contribute 17 % drop out and loan client personal reason contribute only 15% to drop out. From this, we observe group lending and program and policy reason contribute more to drop out of clients.

Correlation Analysis Result

Pearson correlation coefficient used to investigate the relationships between client drop out factors (program and policy, group lending, client business reason and external reason) and out. The outcomes of Pearson correlation coefficient found statistically significant correlations between each dimensions of drop out and client drop out program and policy, group lending, client business reason and external reason respectively($r=.606$, $df=70$, $.527$ $df=70$, $.751$ $df=70$) Table 8: Correlation column show relationships between client drop out factors (program



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and policy, group lending, client business reason and external reason) and drop out. (see annex F page XVII)

Checking For Multiple Regression Assumptions

Checking for multiple regression assumptions were conducted specifically for Normality, linearity; homoscedasticity and the result indicate it is normal.

(It is attached as annex J page XXII)

Table 6. Model Summary to find out over all cause of drop out.

		Std. Error		Change Statistics				
R	Adjusted	of the	R Square	F	Sig. F			
R	Square	R Square	Estimate	Change	Change	df1	df2	Change
.831 ^a	.691	.677	.271	.691	49.272	3	66	.000

Source primary data for the year 2016 though questioners

The output of regression in model summary table above on table 5 describes whether the model is successful in predicting client drop out or not. Entre method used to identify statistically determinant variables in predicting the dependent variable. The value of multiple correlation coefficients between the predictor and the outcome is indicated by R. R value is found 0.831 shows correlation between client drop out reasons and drop out R² is the measure of how much of the variability in the client drop out is accounted for by predictors. In this study, R² is found .691. This value indicates that client drop out reasons contribute 69.1% of the variation out.



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Table 7. ANOVA to find out over all significance.

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	10.848	3	3.616	49.272	.000 ^a
Residual	4.844	66	0.073		
Total	15.692	69			

Source primary data collected though questioners and analyzed by SPSS

The ANOVA table shows that the computed F statistic is 49.272, with an observed significance level less than .001. The model overall resulted significantly good degree of prediction over drop out (see table7).

Table 8 .Coefficients table to find out cause of drop out and factor contribute more to drop out.

	Unstandardized Coefficients		Standardized Coefficients		Correlations			
	B	St.E	Beta	T	Sig.	Zero-order	Partial	Part
(Constant)	0.392	0.282		1.393	0.168			
P.product reason	0.155	0.091	0.149	1.702	0.093	0.606	0.205	0.116
Group Lending	0.213	0.051	0.311	4.167	0.000	0.527	0.456	0.285
Client Reason	0.429	0.062	0.582	6.959	0.000	0.751	0.651	0.476

Source primary data collected in 2016 though questioners

Model Formula

Drop out= 0.392 +0.155*program and policy+0.213*group lending+0.429*client business reason.



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The Coefficients table above presents the standardized Beta coefficient between the predictor variable components of client drop out and the dependent variable drop out. The Beta coefficient show positive and statistically significant at the different levels. Beta for program and policy (t (1.702) = .155, p = .0.093; group lending reason (t (4.167) = 0.213, p = .0001; client business reason (t (6.959) = .0.429, p = .0001. Group lending reason and client business reason have higher t value with significant p=0001. Program and policy is found insignificant since their p value was observed higher than, 0.05 (**See table 8**).

Table 9 E-view Regression output to measure effect poor loan recovery and drop out on profitability

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1731622	117958	-14.68	0.0000
COST_OF_DROP_OUT_CLIENT	-2.169963	0.99414	-2.1828	0.0606
PROVISION_FOR_BAD_DEBT	-0.767332	0.08017	-9.5716	0.000
R-squared	0.998871	Mean dependent var		3919920
Adjusted R-squared	0.998589	S.D. dependent var		8526797
		Akaike info		
S.E. of regression	320312.5	criterion		28.41898
Sum squared resid	8.21E+11	Schwarz criterion		28.5275
Log likelihood	-153.3044	Hannan-Quinn criter.		28.35058
F-statistic	3539.187	Durbin-Watson stat		2.10578
Prob(F-statistic)	.0000			

Source secondary data collected from OCSSCO East Shawa zone from 2006-20015

Model formula

$$\text{PROFIT} = -1731621.95 - 2.16 * \text{Cost_Of_Dropout} + 0.76 * \text{Provision_For_Bad_Debt}$$

Results of regression analysis



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As observed in Table 8 the R^2 of model is 99.8% its indicators, independent variables in the model (loan loss provision and cost of drop out) explained 99.8 percent of the variance in net profit after tax F statistics =3539.18 P value =.001 in OCSSCO East Shawa zone.

With regard to the effect of each independent variable, the results in Table 9 showed that, loan loss provision negatively affected profitability measured by Net profit after tax at a 0.05 level of significance. This suggests that a unit increase in provision to loan loss will result in 0.76 units decrease in net profit after tax. Similarly cost of drop out client negatively affected profitability measured by Net profit after tax. This suggests that a unit increase in cost of drop out will result in 2.16 units decrease in net profit after tax.

4.2 Discussion on Cause of Poor Loan Recovery

Pearson correlation coefficient used to investigate the relationships between poor loan recovery reasons (loan policy and loan client reasons) and poor loan recovery. Revealed that Pearson correlation coefficient found statistically significant correlations between each reason of poor loan recovery and poor loan recovery ((loan policy and loan client reasons respectively ($r=.593$, $DF=70$, $.773$ $DF=70$), Table 4: part Correlation column show relationships between poor loan recovery reasons (loan policy and loan client reasons) and poor loan recovery.

The regression results reveal a strong positive significant relationship (t -value 9.3845.) between loan delinquencies and loan client reasons in OCSSCO East Shawa Zone. This suggests that poor loan recovery is dependent on quality management on the factors, which are within the direct control of the loan client reasons. These results support CGAP (2009) findings that inefficient management of internal factors in loan client reasons contribute to poor loan recovery in loan client reasons. In addition, the results support Dino Sand Ashta (2010) who found



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that micro finance systems and controls, and erosion of MFI lending discipline contribute to increased defaults. Balogun and Alimi (1988) also identified the major causes of loan default as loan shortages, delay in time of loan delivery, small farm size, high interest rate, age of farmers, poor supervision, on profitability of farm enterprises

Further, the regression results reveals a positive and significant (t-value 9.384) relationship between loan policy reason factor and loan delinquency. This suggests that poor loan recovery is dependent on loan policy reasons, which are governance policy and management on loan portfolios.

4.3 Discussion on Factors contribute more to poor loan recovery

Table 4 reveals that loan client reason is positive and significantly, (t-value 9.384) related to loan poor loan recovery in OCSSCO East Shawa Zone. The estimated regression coefficient ($\beta = .414$) for loan client reason variable implies that an improvement in loan client reasons by one unit leads to a corresponding 0.414 decline in poor loan recovery rate in East Shawa Zone. In addition, table 4 analysis of the data reveals a positive and significant (t=5.396) relationship between loan policy reason and loan delinquency. This suggests that, a unit increase in loan policy reasons specific factors ($\beta = 0.369$) leads to a corresponding 0.414 decline in poor loan recovery. This implies that the independent variables (loan policy reason and loan client reason) have major effect on loan delinquency. Loan client reasons factors contribute to loan poor loan recovery at a higher magnitude ($\beta = .414$) followed by loan policy reason ($\beta = .369$) poor loan recovery.



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4.4 Discussion on Cause of Drop Out

The finding from Pearson correlation indicates high correlation between factors of client drop out and drops out. Program and policy reason, group lending reason, client business reason and drop out ($r=.606, .527, .731$ and $.831$) respectively. The Coefficients table presents the standardized Beta coefficient between the predictor variable components of client drop out and the dependent variable drop out. The Beta coefficient show positive and statistically significant at .0001. Beta for program and policy ($t(1.702) = .155, p = .0093$; group lending reason ($t(4.167) = 0.213, p = .0001$; client business reason ($t(6.959) = .0429, p = .0001$). The multiple correlation coefficients are found $R .0.831$, and the R-square is **0.691** Thus, for this sample, the predictor variable client drop out reason has explained 69.1% of the variance in the dependent variable of drop out. The ANOVA table presents result from The ANOVA table shows that the computed F statistic is **49.272, DF = 3**, with an observed significance level less than 0 **.001**. Thus, the summated client drop out is good model in predicting drop out. This finding is consistent with previous works of Pagura (2009), Rae 2009 and Dackauskaite 2009 that reported program and policy reason, group lending reason, client business reason are factors leading to clients drop out. The regression analysis indicates significant results for the model where the cause of client drop out reason predicted on drop out. The study identified that group lending and client business reason found determinant to predict the variance in Drop out.

4.4 Discussion on factors Contribute More to Client Drop Out

The Coefficients table presents the standardized Beta coefficient between the predictor variable components of client drop out and the dependent variable drop out. The Beta coefficient show positive and statistically significant at .001. Beta



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for program and policy ($t(1.702) = 0.155$, $p = 0.093$; group lending reason ($t(4.167) = 0.213$, $p = .0001$; client business reason ($t(6.959) = 0.429$, $p = .001$). The study identified that group lending and client business reason found those contribute more to drop out.

4.5 Discussion on Effect of poor loan recovery and client drop out on profitability

Observation from Table 8 suggested that NPLR, which measures the extent of credit default risk sustained by the OCSSCO East Shawa Zone, showed a statically significant large negative effect on profitability measured by net profit after tax. With regard to the effect of each independent variable, the results in Table 8 showed that, loan loss provision negatively affected profitability measured by Net profit after tax at a 0,05 level of significance. This suggests that a unit increase in provision to loan loss will result in 0.77 units decrease in net profit after tax. Similarly cost of drop out client negatively affected profitability measured by Net profit after tax. This suggests that a unit increase in cost of drop out will result in 2.17 units decrease in net profit after tax.

The result in this respect is consistent with findings of Poudel (2012); Funso et al. (2012) and Chen (2008). Consistent with the findings of previous studies on Ethiopian banks by Getahun (2012) and Melkamu (2012).



CHAPTER FIVE: SUMMARY CONCLUSION AND RECOMMENDATION.

5.1 Summary

The primary goal of every microfinance institution (MFI) is poverty alleviation. To discharge this goal and sustaining profitability is critically important to maintain operational self-sustainability and financial self-sustainability. However, existence of high levels of loan delinquency and client drop out problem in microfinance industry negatively affect the size and quality of microfinance services to borrowers, as MFIs have to compensate for loan losses and cost of drop out. The success of MFIs in credit risk management is largely reflected in the proportion of delinquency's loans to gross lending and its client retention rate. In this regard, this empirical analysis investigated cause and effect of loan delinquency and client drop out in OCSSCO East Shawa Zone.

The study used primary data collected from client through questioners and ten year audited financial data for secondary. The study target population comprised 250 client with past due loan and drop out client in the 1st three quarter of 3015/16fiscal year. A descriptive and explanatory research design was used and a sample of 148 respondents was taken from OCSSCO East Shawa five branches. The primary data was collected through questioners. Descriptive analysis, correlation and multiple regression analysis were used to investigate cause and effect of poor loan recovery and drop out on profitability of OCSSCO East Shawa Zone.

The mean and estimated regression coefficients and t values were interpreted. The study found evidence that there exist a positive and significant ($\beta = .369$, t-value



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5.396) relationship between poor loan recovery and loan policy reason and there is positive and significant ($\beta = .414$, t value 9.384) relationship between poor loan recovery and loan client reason. Similarly the study found positive ($\beta = .155$, t value 1.702) relationship between drop out and program and product policy reason, positive and significant ($\beta = .213$, t value 4.167) relationship between drop out and group lending reason, and positive and significant ($\beta = .429$, t value 6.959) relationship between drop out and client business reason in OCSSCO East Shawa Zone. These results support Dinos & Ashta (2010) and Saloner (2007) findings.

The study concludes that loan policy reason and loan client reason positively and significantly contribute for poor loan recovery and similarly client business reason and program and product policy reason contribute positively and significantly while group lending reason have positively contribute to drop out in OCSSCO East Shawa Zone. The study recommends that MFIs portfolios management strategies focus more on the internal causes of delinquency and client drop out which they have more control over and seek practical and achievable solutions to redress delinquency and drop out problems.

5.2 Conclusion

5.2.1 Conclusion On cause of poor loan recovery.

The finding of this study provides greater understanding into the many causes of loan defaults in OCSSCO. Majority of these causes were internal problems associated with the OCSSCO mode of operations which when properly addressed, microfinance will have a good loan portfolio, fulfill its primary role of poverty alleviation and remain sustainable. These researches provide very enriching



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recommendations to help microfinance practitioners tackle loan default headlong. The study was limited to the causes of loan default in East Shawa zonal branches we recommend further research on the assessment of OCSSCO performance in term of credit risk level portfolio management to achieve international bench marks.

5.2.2 Conclusion On drop out

The finding of this study provides greater understanding into the many causes drop out in OCSSCO East Shawa Zone. Majority of these causes were internal problems associated with the OCSSCO mode of operations which when properly addressed, microfinance will have a good customer relation and long time customer that reduce cost of training.

5.2.3 Conclusion on Effect of Poor Loan Recovery and Client Drop Out On Profitability of Ocscsco East Shawa Zone.

The paper tries to identify effect of poor loan recovery and cost of drop out client on profitability of OCSSCO East Shawa zonal office measured by net profit after tax. The researcher used secondary data collected from OCSSCO East Shawa Zone for 10 years period (2006-2015) as panel data for regression analysis.

Results in Table 8 showed that, loan loss provision negatively affected profitability measured by Net profit after tax at a 0, 05 level of significance. This suggests that a unit increase in provision to loan loss will result in 36.86 units decrease in net profit after tax. Similarly cost of drop out client negatively affected profitability measured by Net profit after tax. This suggests that a unit increase in cost of drop out will result in 1.246 units decrease in net profit after tax.



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5.3 Recommendations

5.3.1 Recommendations on poor loan recovery

Based on the findings of the current research, the following recommendations are made:

- Ocscso should Predictably review loan lending policy to accommodate loan clients needs.
- Loan client should be well trained before loan disbursement and even after disbursement.
- Regular Credit risk assessment and supervision should be undertaken, preferably monthly or quarterly by the management of OCSSCO East Shawa zonal office as this is a continuous process rather than a once in a while exercise.

5.3.2 Recommendations on drop out

The dropout rate situation demands introduction of innovative micro credit products. These researches provide very enriching recommendations to help microfinance practitioners tackle drop out headlong. The study was limited to the causes drop out East Shawa Zone. We recommend further research on the assessment of OCSSCO East Shawa Zone Customer protection level in achieving international benchmarks.

The following recommendations were forwarded based on research finding:

- Oromia credit and saving Share Company is better if revise loan and saving policy and procedure for best fit of its client demand as most of drop out client claim against.



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- Group lending methodology should be revised because it account for drop out.
- Suitability of the terms and conditions of the micro finance product against the use to which the product will be used by loan customer should be checked.
- It is recommended to improve saving management to win the competitions with other financial service providers and to meet saving management standard and customers need.
- Conformity maturity of loan product and repayment term should be revised.
- Arrive at suitable drop out estimation method and include it as part of performance indicator.
- Business customers need based responsive products should be developed to retain mature clients.

5.3.3 Recommendation on Effect of Poor Loan Recovery and Client drop Out on Profitability of Ocscso East Shawa Zone

Regression result indicates that there is significant effect on net profit after tax, this indicate a strong credit risk management process is importance. The cost of drop out clients should be reduced by retaining existing customers though developing customer friendly product, policy, procedure and developing efficient credit management strategy.



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Appendices

Appendix. A Survey Questionnaire

Dear respondent,

Thank you in advance for your time and willingness to share your views on cause and effect of poor loan recovery and client drop out on profitability of OCSSCO East Shawa Zone. This research is for academic purposes only. We assured you that any information given would be coded for the necessary confidentiality.

Survey Questionnaire

Poor loan recovery

5. Strongly agree 4.agree 3 undecided 2. Disagree 1.strongly disagree

1	Loan policy and procedure related	5	4	3	2	1
	☐ Too Delayed Loan Approval when client need finance for business					
	☐ Poor loan appraisal before disbursement					
	☐ Under financing					
	☐ Repayment schedule too short					
	☐ Ineffective monitoring of loan after					



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	disbursement					
	☐ Lack pre loan training on loan utilization					
	☐ Corruption on loan approval					
2	Loan Client related cause					
	☐ Diversion of Loan for other purpose					
	☐ Lack of business management knowledge					
	☐ Over financing above business capacity					
3	External factor beyond MFI and client					
	☐ Poor weather conditions, drought and hunger					
	☐ marketing problems ,falling of product price					
	☐ death of Family member					
	☐ asset damage by fire ,theft and robbery					

Appendix B Survey Questionnaire



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Client drop out

5. Strongly agree 4.agree 3 undecided 2. Disagree 1.strongly disagree

1	Problems with program policies or procedures	5	4	3	2	1
☐	☐ The loan amount is too small.					
	☐ The loan repayment length is too short.					
	☐ The loan became too expensive (such as interest, fees)..					
	☐ I don't like frequent monthly meeting					
	☐ I was unwilling to borrow because of other conditions (such as obligatory saving)					
	☐ I am not satisfied with your staff handling					
	☐ I found micro finance with better terms.					
2	Problems with group lending:	5	4	3	2	1
☐	☐ The group forces me to leave.					



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	☐ The group disbanded.					
	☐ I had personal conflicts with other members of the group					
	☐ I did not like the rules and/or the pressure established by group					
	☐ I want to withdrew my accumulated compulsory saving					
3	Client's business reasons	5	4	3	2	1
☐	☐ I have enough working capital now for my business					
	☐ My business is seasonal; I will borrow again when I need it.					
	☐ I am graduating to a bank loan that give larger loans					
	☐ Because of the weak condition of my business (for example, poor profits, low sales).					
	☐ I sold the business or I want to withdrew from business					
4	Personal reasons:					



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☐	☐ I cannot continue because I spent the money on a crisis (such as illness, death) or a celebration (such as marriage) in my family.					
	☐ My spouse (or other adult income earner) left me by death so I do not have the ability to continue the business.					
	☐ I am pregnant or now have another person to care for (lack of time or ability to continue the business at the same level).					
	☐ I am moving out of the area.					
	☐ My family member told me to stop borrowing from the program.					
	☐ Due to religion related case					
5	External reason					
☐	☐ Due to severe drought and loss of crop and small animals					
	☐ Due to over flood farm land					



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Appendix c. Descriptive Statistics of poor loan recovery

Descriptive Statistics					
	N	Mean	Std. Deviation	Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error
Too Delayed Loan Approval when client need finance for business	70	4.21	.657	-.692	.566
Poor loan appraisal before disbursement	70	4.10	.640	-.511	.566
Too Delayed Loan Approval when client need finance for business	70	4.23	.641	-.621	.566
Repayment schedule too short	70	3.34	.991	-.626	.566
Too Delayed Loan Approval when client need finance for business	70	4.21	.635	-.577	.566
Too Delayed Loan Approval when client need finance for business	70	4.21	.635	-.577	.566
Corruption on loan approval	70	2.41	1.083	-.662	.566
Diversion of Loan for other purpose	70	3.41	1.245	-1.137	.566
Too Delayed Loan Approval when client need finance for business	70	4.27	.635	-.628	.566
Over financing above business capacity	70	2.80	1.400	-1.351	.566
Poor weather conditions, drought and hunger	70	4.10	1.241	.543	.566
marketing problems ,falling of product price	70	2.80	1.575	-1.557	.566
death of Family member	70	1.71	1.079	2.942	.566
Asset Damage By Fire ,Theft And Robbery	70	1.57	.861	2.950	.566
Valid N (listwise)	70				



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Appendix D Correlation for poor loan recovery

Correlations					
		cumulative loan policy reason	cumulative loan client reason	cumulative external factors reason	over all poor loan recovery factor
cumulative loan policy reason	Pearson Correlation	1			
	Sig. (2- tailed)				
	N	70			
cumulative loan client reason	Pearson Correlation	.342**	1		
	Sig. (2- tailed)	0.004			
	N	70	70		
cumulative external factors reason	Pearson Correlation	0.144	.252*	1	
	Sig. (2- tailed)	0.235	0.035		
	N	70	70	70	
over all poor loan recovery factor	Pearson Correlation	.593**	.773**	.728**	1
	Sig. (2- tailed)	0	0	0	
	N	70	70	70	70
**. Correlation is significant at the 0.01 level (2-tailed).					
*. Correlation is significant at the 0.05 level (2-tailed).					



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Appendix E. Descriptive Statistics for Drop out

Descriptive Statistics							
	N	Minimum	Maximum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
The loan amount is too small.	70	2	5	4.13	.102	.850	.722
The loan repayment length is too short	70	2	5	3.69	.090	.753	.566
The loan became too expensive (such as interest, fees)..	70	2	5	3.86	.100	.839	.704
The loan amount is too small.	70	2	5	4.04	.105	.875	.766
The group forces me to leave.	70	2	5	3.94	.093	.778	.605
The group forces me to leave.	70	3	5	3.99	.085	.712	.507
I found micro finance with better terms.	70	1	5	2.66	.165	1.382	1.910
The group forces me to leave.	70	2	5	3.91	.090	.756	.572
The group forces me to leave.	70	2	5	3.93	.092	.767	.589
The group forces me to leave.	70	2	5	3.94	.093	.778	.605
The group forces me to leave.	70	2	5	3.97	.095	.798	.637
The group forces me to leave.	70	2	5	3.96	.094	.788	.621
I have enough working capital now for my business	70	1	5	2.94	.180	1.503	2.258
The group forces me to leave.	70	3	5	4.04	.082	.690	.476
I am graduating to a bank loan that give larger loans	70	1	5	2.79	.176	1.473	2.171
The group forces me to leave.	70	3	5	4.00	.084	.702	.493



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I sold the business or I want to withdrew from business	70	1	5	2.37	.138	1.157	1.338
I cannot continue because I spent the money on a crisis (such as illness, death) or a celebration (such as marriage) in my family.	70	1	5	2.14	.135	1.133	1.284
My spouse (or other adult income earner) left me by death so I do not have the ability to continue the business.	70	1	5	2.34	.156	1.306	1.707
I am pregnant or now have another person to care for (lack of time or ability to continue the business at the same level).	70	1	5	2.10	.152	1.276	1.628
I am moving out of the area.	70	1	5	2.21	.153	1.284	1.649
My family member told me to stop borrowing from the program.	70	1	5	2.57	.162	1.357	1.843
Due to religion related case	70	1	5	2.96	.184	1.536	2.360
Due to severe drought and loss of crop and small animals	70	2	5	4.31	.107	.894	.798
Due to over flood farm land	70	1	5	2.46	.146	1.224	1.498
Due death of my husband or wife	70	1	5	2.01	.134	1.123	1.261
My business was ruined by a disaster (such as robbery, fire)	70	1	4	1.90	.124	1.038	1.077
Valid N (listwise)	70						



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Appendix F. CORRELATIONS FOR DROP OUT

correlations							
		cumulative program and product policy reason	cumulative group lending reason	cumulative client business reason	cumulative loan client personal reason	cumulative external factors reason	overall drop out
cumulative program and product policy reason	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	70					
cumulative group lending reason	Pearson Correlation	.396**	1				
	Sig. (2-tailed)	.001					
	N	70	70				
cumulative client business reason	Pearson Correlation	.573**	.270*	1			
	Sig. (2-tailed)	.000	.024				
	N	70	70	70			
cumulative loan client personal reason	Pearson Correlation	.107	.000	.408**	1		
	Sig. (2-tailed)	.376	.997	.000			
	N	70	70	70	70		
cumulative external factors	Pearson Correlation	.330**	.283*	.427**	.611**	1	



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reason	Sig. (2-tailed)	.005	.017	.000	.000		
	N	70	70	70	70	70	
overall drop out	Pearson Correlation	.606**	.527**	.751**	.713**	.805**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	70	70	70	70	70	70
**. Correlation is significant at the 0.01 level (2-tailed).							
*. Correlation is significant at the 0.05 level (2-tailed).							

Reliability Statistics for cause of poor loan recovery

Cronbach's Alpha	N of Items
.677	14

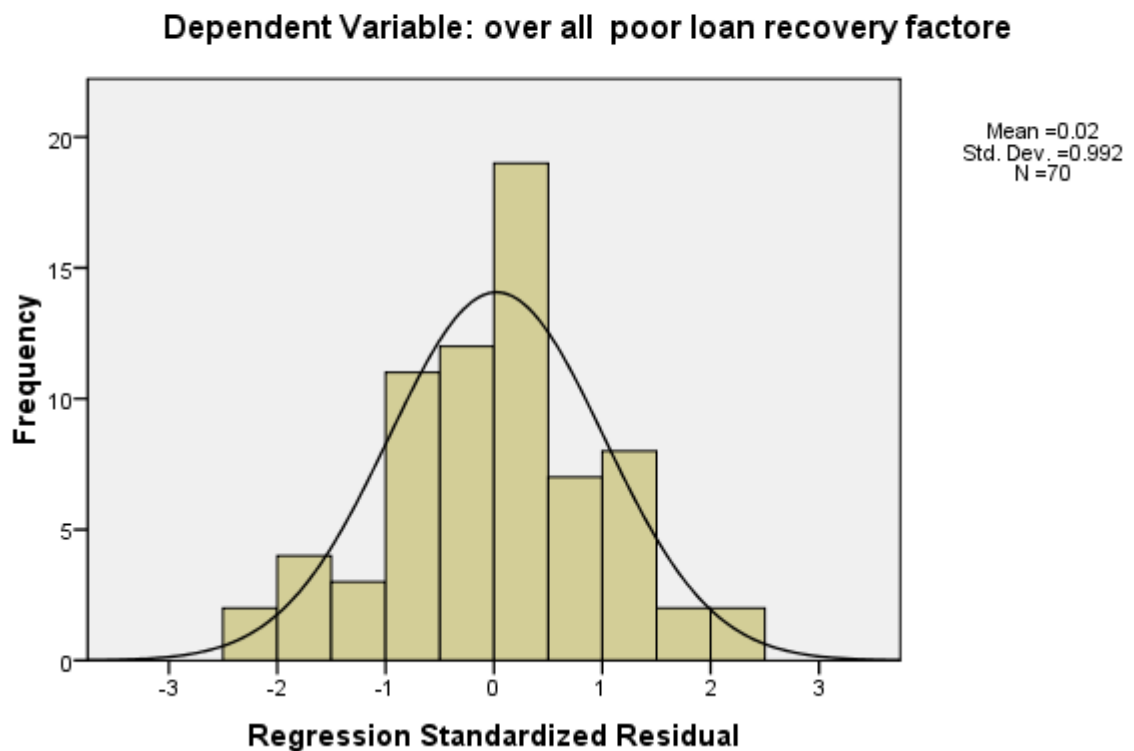
Reliability Statistics for cause of drop out

Cronbach's Alpha	N of Items
.838	27



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Histogram



Appendix G. Histogram for testing regression assumption

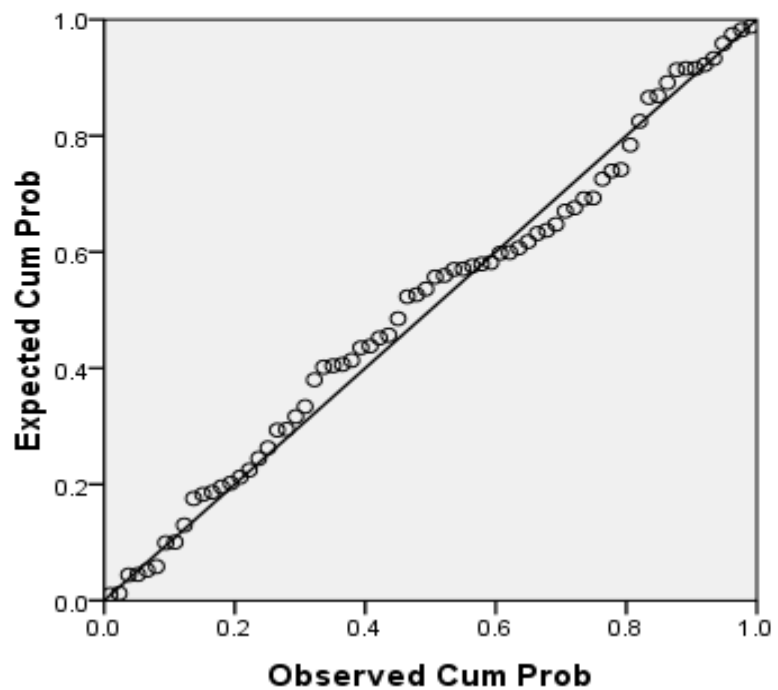


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Appendix H. Normal P_P plot for testing regression Assumption

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: over all poor loan recovery factore

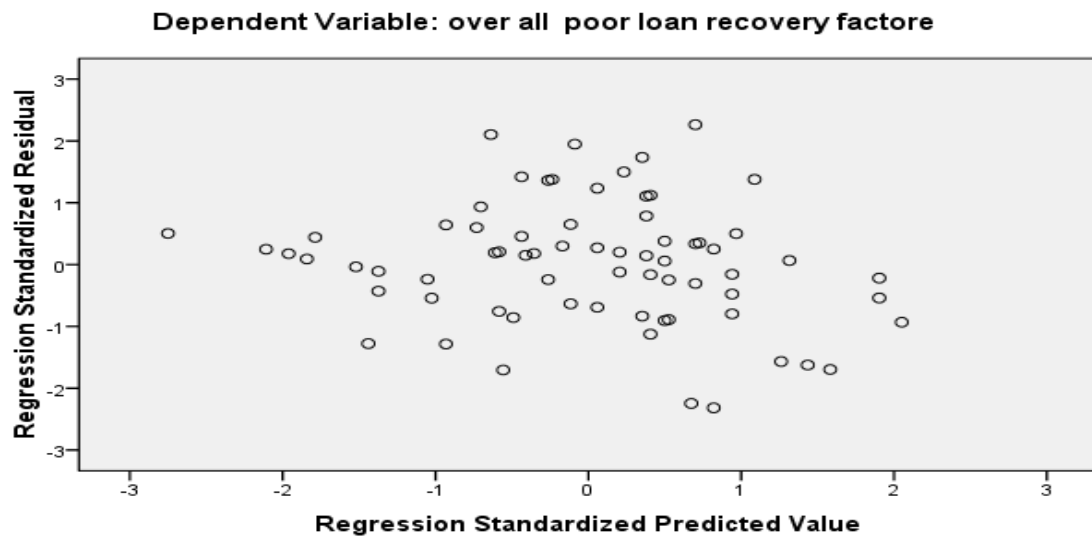




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Appendix I. Scatter plot for testing regression Assumption

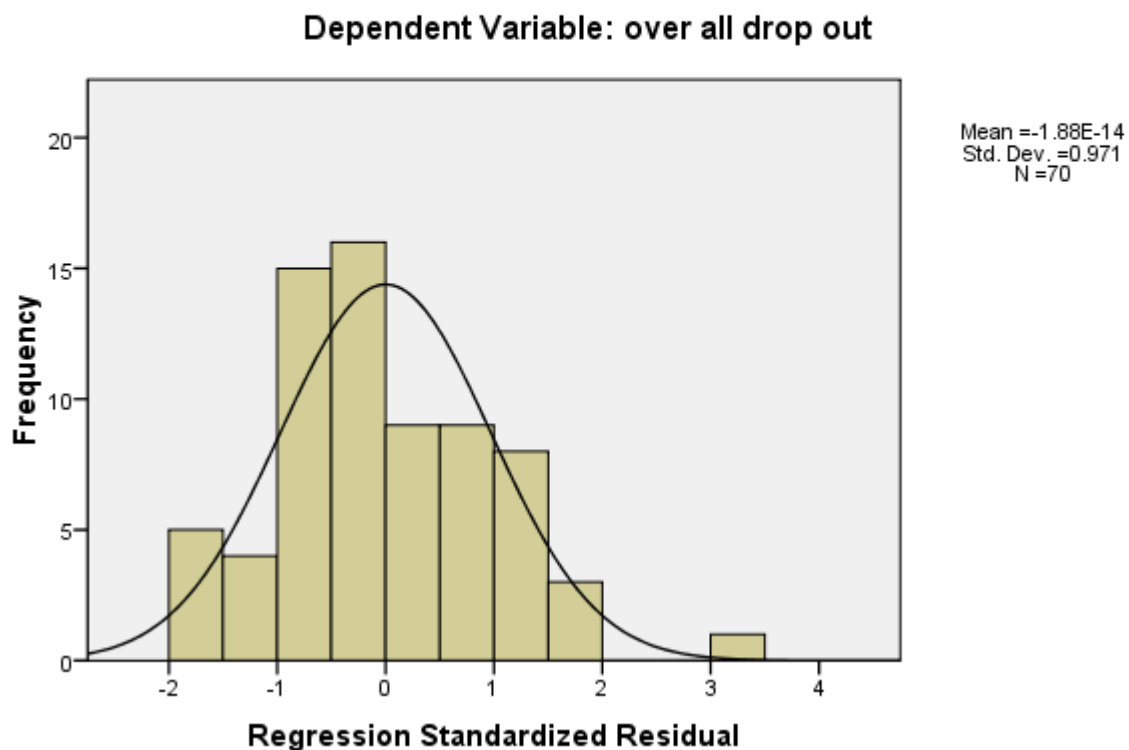
Scatterplot





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Histogram

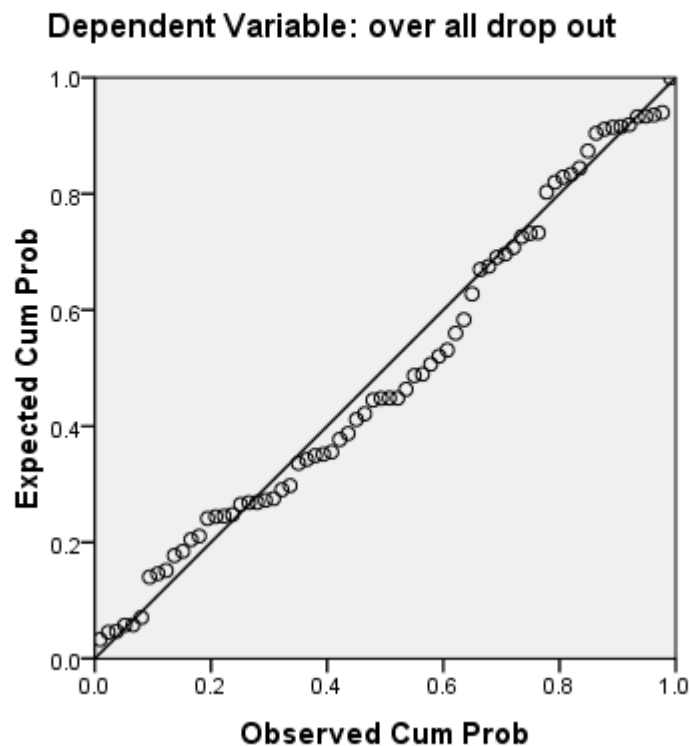


Appendix J .Histogram for cause of drop out



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Normal P-P Plot of Regression Standardized Residual

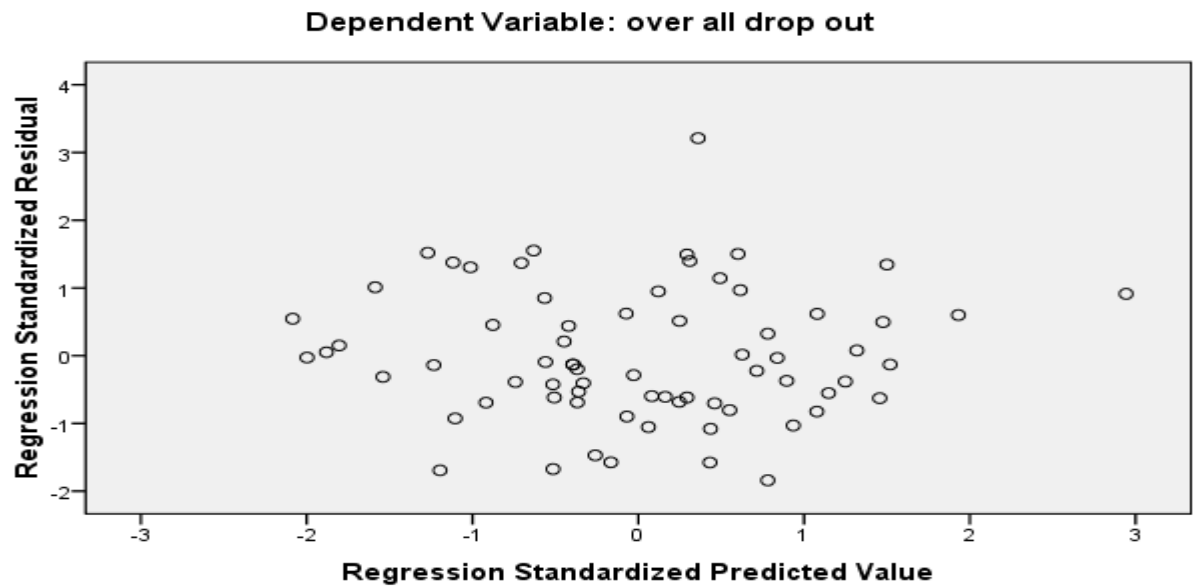


**Appendix K. Normal P-P plot for standardized residual for drop
out**



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Scatterplot



Appendix L. Scatter plot for drop out.



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Appendix M. East Shawa zone 2006-2015 consolidated financial data

year 2006-2015	Provision for Bad Debt	cost of drop out client	Net profit
2006	(1,106,544.08)	(190,352.40)	(46,314.72)
2007	(1,296,608.16)	(230,662.32)	(141,091.45)
2008	(2,096,608.16)	(258,602.00)	221,727.27
2009	(2,205,590.61)	(270,865.60)	520,494.26
2010	(3,087,826.85)	(279,610.08)	840,906.64
2011	(3,391,871.06)	(291,660.40)	1,510,852.30
2012	(4,438,751.10)	(303,284.16)	1,859,534.58
2013	(4,882,626.21)	(270,225.76)	2,902,353.46
2014	(5,126,757.52)	(216,799.12)	2,634,251.32
2015	(5,280,560.24)	(373,559.92)	3,456,844.20
	(32,913,743.99)	(2,685,621.76)	29,359,557.86