

Loan Repayment Performance of Awash Saving and Credit Cooperatives Union, Oromia Regional State, Ethiopia.

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Abstract

This study aimed to assess loan repayment performance of Awash saving and credit cooperatives union, Oromia regional state, Ethiopia. This study is delimited to loan repayment performance and loan repayment trends of Awash saving and credit cooperative union of the last ten consecutive years (2010-2019 GC). Descriptive research design was used in this study. Moreover, both quantitative and qualitative research approaches were used for triangulation purpose. Both primary and secondary data were used to address the desired research objectives. Primary data were collected through focus group discussion (FGD) and key informant interviews (KII). Whereas secondary data were obtained from annual audited financial statement of the union. The collected data were analyzed using both descriptive and linear regression analysis accordingly. The study result indicates that, though the loan performance of the union improving year after year in the study period, disparity of the amount loan planned, amount distributed and amount collected becoming wider and wider starting from 2015 G.C. Moreover, the researchers conclude that, institutional factors (lack of qualified and adequate man power) members' factors (lack of business know how and low income) and external factors (political instability) are major hindering factors that are affecting loan repayment performance of the members. To overcome these problems, adequate and competent cooperative professional employee should be recruited for loan supervision and collections and regular training should be given for the members on credit usage and repayment.

Keywords: Loan repayment performance, loan repayment trend, saving and credit cooperatives society

Introduction

Cooperative societies are an autonomous association of persons united voluntarily to meet their common economic and social needs through jointly owned and democratically controlled enterprises, which are organized and operated under the principles of cooperatives (ICA, 2005). In Ethiopia, the history of saving and Credit Cooperatives goes back to the Emperor Haile Selassie regime. The first urban saving and credit cooperative in Ethiopia was established

in 1966 by the Ethiopian Road Authority workers and followed by the Ethiopian Airline workers in 1972 (Daniel, 2008).

Cooperatives societies are playing lion-share roles in the development of national economy in both developed and developing countries. According to the 2014 International Co-operative Alliance's, the turnover of the largest 300 cooperatives in the world grew by 11.6% to reach \$2.2 trillion in 2012, equivalent to the gross domestic product (GDP) of Brazil (Kiptoo, 2015).

According to the World Council of Credit Unions (WOCCU, 2014) there are 57,000 saving and credit unions across 6 continents and 105 countries. These credit unions constitute the savings of \$ 1.5 trillion (US dollars), and an asset base of \$ 1.8 trillion (US dollars) out of which \$ 1.2 trillion (US dollars) constituted the loan portfolio.

According to Hesse and Cihak (2007), cooperative financial institutions hold a considerable market share, with the International Monetary Fund (IMF) estimates that across all banking sector assets in developing countries, the market share of cooperative finance was equivalent to 14 percent in 2004. Despite saving and credits cooperatives societies (SACCO's) are having this significant contribution in the economy of the nation loan repayment performance of the borrowers becoming threats across the world. Members' Loan repayment performance is an important factor for the success of saving and credit cooperatives union. According to Okurut and Kinyondo (2009), the higher loan repayment performance leads the higher profitability of the collecting interest revenues and lower loan losses in a lending institution. Loan repayment performance measures how much borrowers or members are capable in settling up amount they borrowed with its interest amount in full as per the loan contract.

Financial institutions are considered as an important development tool, through improving access to financial services, creating employment opportunities for the unemployed and increases their income and consumption (Arega, 2007). Like any other financial institutions' cooperative financial institutions (saving and credit cooperatives) are subjected to credit default risk. Comparing saving and credit cooperative societies and Micro Finance institution (MFI) loan repayment performance of the borrowers, saving and credit cooperative societies are highly exposed to loan default due to low loan repayment of members. Loan default seems to be higher in saving and credit cooperative societies over Micro Finance institution (MFI) default rate. While the reason being that most of their loans were issued to borrowers (members) of the saving and credit cooperative organizations (SACCO's)

irrespectively of the condition of having business or not (Kassim, 2013).

Several researchers revealed that the issues of credit risk management is becoming doubtful in saving and credit cooperative organizations (Absanto and Aikaruwa, 2013; Lagat et al, 2013, Magali and Qiong, 2014). Saving and credit cooperative organizations (SACCO's) are contributing to social and economic developments in both developed and developing countries of the world, however SACCO's operating in developing countries have continued experiencing deteriorating financial performance due to issues of loan repayment (Nguta and Guyo, 2013). Credit default problems destroy lending capacity of saving and credit cooperative organizations (SACCO's) as the flow of repayment declines, transforming lenders into welfare agencies, instead of a viable financial institution (Hunte, 1996).

The loan recovery performance of any financial institutions including rural saving and credit cooperatives should be good unless otherwise their sustainability falls under question. Even though the loan recovery performance of rural saving and credit cooperatives was better, still the loan recovery performance of the rural saving and credit cooperatives was not as intended (Dejen, 2015).

To my knowledge, there is no research yet done on loan repayment performance of Awash saving and credit cooperative union which covers last consecutive ten years loan repayment performance trends. This indicates that, there is research gap on this particular area and specifically on this topic. Therefore, to fill this research gap on this particular area, this study was aimed to assess loan repayment performance and loan repayment trends of Awash saving and credit cooperative union for the last ten consecutive years (2010 -2019 G.C) . in addition to this, this study tried to identify factors affecting loan repayment performance of the members of the union.

Research methods

Research design

According to Derrheim (2004) research design is a strategic framework for action that serve as a bridge between research questions and execution or implementation of the research strategy. So for this study purpose, descriptive research design was used as it is the most appropriate research design for describing last ten years' loan repayment performance and factors affecting loan repayment performance of the members of the union.

Research Approach

To carry out this study, mixed research approach (the combination of both qualitative and quantitative approach) was used to provide further explanations and new insights into issues concerning the loan repayment performance of selected saving and credit union. The purpose of using a mixed approach is to gather data that could not be obtained by adopting a single method and for triangulation. Moreover, the advantage of a mixed approach is to mitigate the bias in adopting either quantitative or qualitative approach (Creswell, 2003)

Data sources and data collection methods

To address the desired research objectives both primary and secondary data were used. Primary data were collected through focus group discussion and key informant interview. In focus group discussion, discussion about loan repayment performance of members and factors affecting loan repayment performance of members were made with board of directors and representatives affiliated primary saving and credit cooperatives societies. In addition to this key informant interview were made with General Manager, Finance manager and Loan manager. Secondary data were taken from consecutive ten years (2010-2019 G.C) audited financial statements of the union regarding to loan planned, loan distributed, loan collected and loan uncollected.

Sampling procedure

Awash saving and credit cooperative union is the only union in East Shoa zone. In this union there are 111 affiliated primary saving and credit cooperative societies. In this study,

purposive sampling technique was employed. Hence, Awash saving and credit cooperative union were purposively selected as study area. Because Awash saving and credit cooperative is a giant saving and credit union in terms of area of operation and year of establishment. In addition to this Awash saving and credit cooperatives union were consequently audited from its establishment and having well documented financial statements.

Board of directors (9) and representatives of affiliated primary SACCO's (36) are purposively selected for focus group discussion (FGD) and General Manager, Finance manager and Loan manager were purposively selected for key informant interview (KII) with presupposing they have sufficient information about the loan repayment performance of the union.

Data Analysis

Data analysis was performed using Statistical package for Social Science (SPSS) version 21. Descriptive results were presented using frequency table and loan performance trend was shown by line graph to explore the pattern of loan performance of the union for the last ten years. Simple linear regression was used to measure loan collection performance of the union from the consecutive ten years audited financial statements.

Results and discussions

Descriptive analysis

As it can be seen from table 3.1, the union's loan planned was 4,000,000 birr at baseline year (2010 G.C) and reached 60,000,000 after ten years (2019 G.C). The average loan planned during ten years of performance was 28,400,000 birr. However, the union's average loan distribution during the ten years was 24,042,987.40-birr accounting about 85% of its plan. When loan collection performance is concerned, the union average loan collection was 22,315,495.80 birr which accounts about 93% of amount actually distributed to the members. The remaining 7% (1,727,491.6 birr) was uncollected loan on average during the last ten years.

Table 1. Summary of ten years Loan collection performance of Awash saving and credit Cooperative union

Loan Performance	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Loan planned	10	28,400,000.00	20,651,607.42	6,530,611.68	13,626,730.02	43,173,269.98	4,000,000	60,000,000
Loan distributed	10	24,042,987.40	16,907,794.25	5,346,714.00	11,947,880.02	36,138,094.78	3,750,603	48,500,000
Loan collected	10	22,315,495.80	14,937,653.28	4,723,700.73	11,629,742.37	33,001,249.23	3,638,085	42,195,000
Loan uncollected	10	1,727,491.60	2,446,091.040	773,521.91	-22,336.52	3,477,319.72	92,200	6,305,000

Trend of loan collection performance for the last ten years (2010-2019)

As it can be observed from the graph below loan performance (in terms of loan planned, loan distributed and loan collected) has been increasing overtime during the last ten years. The graph shows that throughout the ten years' periods, loan distributed was below loan planned. Similarly, loan collected was less than loan distributed and the difference became wider and wider after 2015 G.C. In addition to this, starting from 2018 G.C though the amount of loan planned was increasing with slight

decreasing, the amount of loan distributed and loan collection was falling. During focus group discussion and key informant interview the researcher asked further explanation of why the amount of loan distributed and collected was decreasing in the year 2018 and 2019 G.C. Respondents indicated that due to the political instability of 2018 and 2019 G.C the amount of loan provided to the members was decreased and also the productivity of the borrowers/members decreased hence members couldn't pay back their loan on maturity date.

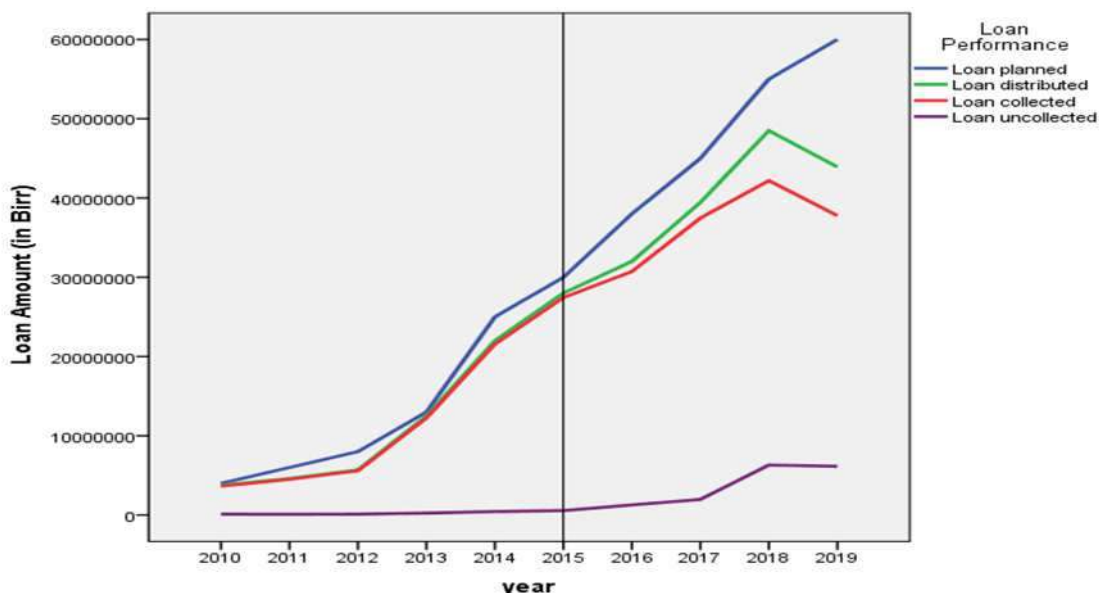


Figure 1. Trend of Loan Collection Performance for the last ten consecutive years (2010-2019)

Regression analysis

Loan distribution performance

The correlation coefficient shows that there was a strong positive linear relationship between loan distributed and loan planned (r=0.989). The simple linear regression model showed that loan planned explained 97.7% of the observed variations in loan distributed (R2=0.977).

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.989 ^a	.977	.974	2710359.070

- a. Predictors: (Constant), Loan Planned
- b. Dependent Variable: Loan distributed

Loan Distributed= 1058548.282+ 0.81Loan Planed

According to the regression result, the average loan distributed increases by 0.81 birr for each 1-birr increase in loan planned. In another way out of 1-birr loan planned 0.81 birr were distributed in average during the last ten years.

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1058548.28 2	1509378.551		.701	.503
	Loan Planned	.809	.044	.989	18.500	.000

a. Dependent Variable: Loan distributed

Loan collection performance

Based on consecutive ten years' loan collection performance data, simple linear regression result shows that there was a positive linear relationship between loan collected and loan distributed (**R=0.996**). Moreover, it is observed that, loan distribution explained 99.2% of the variations in loan collected (**R²=0.992**).

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.996 ^a	.992	.991	1443870.843

a. Predictors: (Constant), Loan distributed

b. Dependent Variable: loan collected

As the regression output shows, the average loan collected increases by 0.88 birr for each 1-birr increase in loan distributed. This means, the union has been collecting 88% of the amount it has been distributing to its members.

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1162449.889	822725.086		1.413	.195
	Loan distributed	.880	.028	.996	30.908	.000

a. Dependent Variable: loan collected

$$\text{Loan collected} = 1162449.889 + 0.88 \text{ Loan distributed}$$

Factors affecting loan repayment performance of members

According to data obtained from FGD and KII there were three major factors that have been affecting loan repayment performance of the union. These factors are:

Institutional factors (both at union and primary SACCO's level)

At organization level there are so many factors that have been affecting loan repayment performances. For instance, there is lack of qualified and adequate man power both at union and primary level for follow-up and supervision of loan collection. Although continuous follow up and supervision is important for loan repayment, there is no enough supervision made by loan officers (Dula, 2012)

Most of the time, especially in rural primary saving and credit cooperative societies managers, board of directors and loan officers are uneducate or less educated one. Hence, they don't have know-how of loan processing and collection. In addition, there is lack of trained man power and shortage of capital for provision of training for members on credit utilization and loan repayment. Poor credit appraisal mechanism is also another major hindering factor in poor loan repayment performance of the union.

Members' factors

From the members' perspectives there are many factors that are affecting loan repayment performance of the members of the union.

First, due to lack education and training, most of the borrowers do not have business know-how which leads them to invest on unproductive activities, which finally results in inability to repay their loan on time. There is no training provided for the borrowers/members from the government, NGO or from the union on how to use the capital and when they should repay back the loan. a more educated borrower is expected to use the loan effectively as compared to a less educated one (Dula ,2012).

Second, the level of income of the borrowers is also another critical factor that affecting the loan repayment performance of the members. When the amount of income decreases their loan repayment performance decreases and vice-versa. The study of Tundui et al (2013) confirms that increase in household income leads to low default rate. Thirdly, Extravagant practices of the members for different ritual and religious purpose is also becoming bottle neck for the union to collect the loan on time. Fourthly, carelessness of few members and delinquent in repaying their loan liability on time, results in low loan repayment performance of the union.

External factors

In addition to problems of the institution and members related factors, there are also factors which could not be controlled at institutional level. These factors are: Political instability of the country, which is having an impact on macro-economy of the country, which can affect members' loan repayment performance, Bureaucracy or wearisome of cooperative promotion office in administering and facilitating the activities of cooperatives societies is also having its own negative impact up on the loan repayment performance of members

Conclusion

The study indicates that, in the last ten consecutive years, the amount of loan planned increases from 4,000,000 to 60,000,000 birr and the amount of loan distributed were increased from 3,750,603 to 48,500,000 birr. As per the result from the study, loan collection is increased from 3,368,085 to 42,195,000 birr. This indicates that, as loan planned is increased members might get more opportunity to get loan and as loan provided is increased loan collection is also increased. As loan collection increased the interest collection is also increased and this is a means through which the union's net income is increased. The profitability of the union is an indicator for the strong performance of loan repayment. However, starting from 2015 G.C the disparity between amount of loan planned, loan distributed and amount of loan collected

become highly visible and in year 2018 and 2019 G.C the amount of loan distributed and amount of loan collected shows falling pattern.

Lack of qualified and adequate work force, lack of training for members, political instability and extravagant practices of members were identified as the major hindering factors for low loan repayment performance of the members.

Recommendations and future directions

Based on the finding of the study, the researchers would like to forward the following recommendations:

As linear regression coefficient indicates, there is strong positive relationship between amount of loan planned, loan distributed and loan collected during the last ten-years consecutive period, so the union has to increase its capacity of annual loan plan by solving its capital shortage through increasing saving of members. Both at union and primary saving credit cooperatives level, competent and qualified employees should be recruited in order to solve workforce problem for follow up and supervision then results in speed up loan collection performance of the union.

The union has to design strong and functional credit appraisal mechanism which is very help full in screening the borrowers to measure the potential capacity of the borrower to repay the loan on time. It's better if Comprehensive type of training given for the members/borrowers by different stake holders (Government, NGOs, union) on business activities, credit utilizations and how they could repay their loan liability on maturity date. Government should do on stabilizing the political situation of the country and smoothening of the bureaucracy in cooperative promotion offices that will lead to increasing of the productivity and loan repayment capacity of the members.

The researchers would also like to recommend that further study should be under taken by considering more than one union and by including more variables/ factors that are

affecting loan repayment performance which are not considered in this study to generalize about saving and credit cooperative organizations (SACCO's) loan repayment performance.

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