

Assessment of Causes of Loan Default in Wasasa Microfinance S. C. Sabata Town Branch Office

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To cite this article:

Diriba Merga Erena, Hundessa Adugna Yadeta. Assessment of Causes of Loan Default in Wasasa Microfinance S. C. Sabata Town Branch Office. *American Journal of Management Science and Engineering*. Vol. 3, No. 6, 2018, pp. 84-94. doi: 10.11648/j.ajmse.20180306.11

Received: January 18, 2019; **Accepted:** February 21, 2019; **Published:** March 7, 2019

Abstract: The study was conducted on the assessment of causes of loan default in Wasasa Microfinance S.C Sabata town branch office in order to indicate information that enables to ensure its future sustainability. Both questionnaire and interview guide were used to collect data which was analyzed using descriptive analysis. The survey made on 99 clients and 10 employees shows that the majority of clients are females which is prioritized by the institution to empower poor female household heads. More than half clients of the institution work in their own business generating income of 5000 -50,000 birr per month. Based on the result, poor loan appraisal, Burden of interest, operational inefficiency and Poor customer handling are the four major internal causes of the loan default while political instability, poor business plan, existence of illegal business and price fluctuation are four major external causes of loan default. Wasasa Microfinance uses different mechanisms to control default like negotiation with customers, writing letter of warning to defaulters, penalizing according to loan agreement and taking to court. It is recommended that Wasasa Microfinance S. C control different causes of loan default by awareness creation through training both customers and employees, and increasing institutional efficiency in operational procedures and policies. It is better for the institution to focus on capacity building, incentivizing the model staffs and using clear monitoring and evaluation system.

Keywords: Microfinance, Microcredit, Loan Default, Customer, Wasasa, Sabata Town

1. Introduction

Poverty reduction is the main agenda of policy makers of different countries and international organizations like the United Nations. Various ways of providing access to financial service to the poor is usually considered in terms of its ability to help people to escape from poverty. In many developing income countries, the formal financial institutions are inefficient to provide sustainable credit facilities to the poor [1]. Hence, microfinance programs have been developed to provide financial service for those who have no access to financial services from formal financial institutions. In addition, they contribute a lot to reduce the negative impact of local money lenders.

Microfinance can be a critical element of effective poverty reduction strategy. Well organized access and efficient

provision of saving, credit and insurance facilities by microfinance institutions in particular can enable the poor to smooth their consumption, manage their risks better, build their assets gradually, develop their microenterprise, and enhance their income earning capacity [2]. However, microfinance institutions are encircled by so many deep-rooted problems. Microfinance institutions in several countries encountered serious loan recovery problems [1]. The causes for these problems vary from country to country even between different states on a country. Therefore, identifying and examining causes of loan default is vital in the achievement of profitability and sustainability of MFIs [2].

The sustainability of MFIs is important to reduce poverty, but the burden of higher interest leads the poor to fail in repaying the loan [1, 3]. This may result in increasing the number of the poor in the community. Concentrated market

competition and multiple borrowings is another problem in MFI industry in Ethiopia. Microfinance institutions do not spread their services, but competed more aggressively in concentrated geographic regions. Such lending concentration increases the probability for clients to borrow from more than one MFIs. This results in multiple borrowing and increase the degree of loan default. In Ethiopia, MFIs strictly discourage the duplication of loan, but in practice, people are getting loans from different sources by using family members for loan registration [1, 2]. For example, husband and wife can separately get loan from different MFIs for the same project.

Developing countries, like Ethiopia, have a common problem in infrastructure and access to market for products. Loan provision by MFIs to urban and rural poor increases products, resulting in increasing demand for road and market for their products. Lack of infrastructure and market for product is another problem leading to loan default of MFIs by affecting their repayment ability [4].

Wasasa Microfinance S.C is one of Ethiopian Microfinance institutions providing different types of loan products to its customers in all branch offices found in different towns. Wasasa Microfinance S.C, Sabata town branch office has advanced various loan products to different urban and rural customers living in and around Sabata town. Now days, 13.41% of the total outstanding loan has the status of non-performing loan, which is greater than thirty days (>30days). This amounted 2,322,350.79 (two million, three hundred twenty-two thousand, three hundred fifty and seventy-nine cents) from the total outstanding of 17,315,527.43 (Seventeen million, three hundred fifteen, five hundred twenty-seven and forty-three cents) [5].

In order to maintain sustainability of MFIs, assessing factors causing loan default is important, because if borrowers do not repay, then there may not be sufficient funds to ensure that the liquidity position of the MFI is maintained [2]. When there is a loss in the MFI liquidity due to high levels of non-repayment, the cyclical flow of funds between the MFI and the borrowers will be interrupted. Moreover, studies show that the causes loan default can be classified in to internal and external factors [3]. But, causes of loan default has different characteristics based on the type of organization, geographical area of the study, market condition, and other factors. Therefore, whether loan default is influenced by certain factors in specific situations, needs clear assessment so that findings can be used by Microfinance Institutions to manipulate their credit programs for the better. In addition, not much has been done to find out causes loan default in MFIs institutions operating in Oromia national regional state in general and Wasasa microfinance institution share company in particular [6]. Hence, the study is aimed to fill the above-mentioned gap by identifying and assessing the causes of loan default in Wasasa Microfinance S.C. Sabata town branch office for the future sustainability of this specific branch. The study was conducted with the objective to investigate the internal and external causes of loan default in Microfinance institutions, the case of Wasasa Microfinance S.C in Sabata town.

2. Theoretical Framework on Loan Delinquency and Loan Default

A loan is delinquent when a payment is late and as a result, the chance of recovery becomes minimal. Delinquency is measured because it indicates an increased risk of loss, warnings of operational problems, and may help to predict 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 measure 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 [1].

Default occurs when a debtor has not met his or her legal obligations according to the debt contract. For example, a debtor has not made a scheduled payment, or has violated a loan covenant (condition) of the debt contract [7]. A default is the failure to pay back a loan. Default may occur if the debtor is either unwilling or unable to pay their debt. A loan default occurs when the borrower does not make required payments or in some other way does not comply with the terms of a loan [8, 9].

They explained that some of the loans made to companies and industries by financial institutions during the bubble era became non-performing when the bubble burst. This delayed structural reforms and prevented the financial intermediary system from functioning properly. Most of the defaults arose from poor management procedures, loan diversion and unwillingness to repay loans [10]. These causes have different nature in different institutions and different countries. In Kenya the management failure to efficiently manage specific factors is the main internal cause of loan default [11] while Inadequate financial analysis and weak loan support were considered as the main causes of loan default in Uganda [12]. In Ethiopia, different studies on the causes of loan default stated that lack of willingness to pay loans coupled with diversion of funds by borrowers, willful negligence and improper appraisal by credit officers are the major ones. Other studies found that, corporate loan default increases as real gross domestic product decline, and that the exchange rate depreciation directly affects the repayment ability of borrowers [13]. 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 programs.

3. Materials and Methods

3.1. Description of Study Area

Sabata town is one of the cities found in Finfinnee Surrounding Zone of Oromia national Regional state. The town is one of the attractive towns in Oromia for business activities due to its location which is very close to Finfinnee

(Addis Ababa) City. Sabata is about 25KM away from the city. A number of Microfinance institutions operated in this town to provide different financial services to the residents of the town. Wasasa Microfinance S.C head office is located at Alemgena area in this town. Wasasa Microfinance S.C Sabata town branch office is one of the Microfinance operating in Sabata town to serve society by providing financial services to both rural and urban dwellers in and around Sabata town. The researcher is interested in studying the Assessment of Causes of loan default in Microfinance institution, the case of Wasasa Microfinance S.C Sabata town. Thus, study is area is limited to Wasasa Microfinance S.C Sabata town credit clients.

3.2. Data Sources, Data Collection and Analysis

The researcher employed descriptive research with quantitative and qualitative methods. Both primary and secondary data were used in the analysis of this study. The primary sources of data were collected through structured questionnaires and interviews while the secondary data are employed from report, core banking solution, assessments, etc. The structured questionnaire was prepared for credit clients of Wasasa Microfinance S.C in Sabata town and interview were made to employees of Wasasa. The research was conducted on the credit clients seemed representative for the whole clients (Population). The total population who are going to be respondent for the researcher are 141 (131 active and partial defaulter clients, 4 Employees of Wasasa MF S.C

in Sabata town branch, 3 Operations Department's Experts of Wasasa MF S.C and 3 Regional staffs). Hence, a total of 109 samples are used (99 clients which was selected through the convenient sampling techniques and 10 employees of Wasasa Microfinance S.C selected from different department were interviewed. The review of secondary data was also made from different secondary data sources. The data collected was analyzed through descriptive analysis. Data analysis was made using tabular, number, value and percentage, with SPSS version 20.0.

4. Results and Discussion

4.1. Personal Information of the Respondents

About 99 respondents were randomly selected clients by the researcher and interviewed using the structured questionnaire. This sample size comprised of both male and female clients of Wasasa Microfinance S.C, Sabata Branch office. The result in the table below indicates that more than half of the respondents were female clients to the institution. This constituted about 62.6% of the total population. About 37.4% of the respondents were Male clients to Wasasa Microfinance S.C. This is in line with the objective of Wasasa Microfinance S.C, that advances credit and other Microfinance services to active poor women family heads in the society, as its top priority. This is intended to empower women household heads.

Table 1. Respondents Gender and Age.

Gender			Age		
Category	Frequency	Percent	Category	Frequency	Percent
Male	37	37.4	18-65	98	99.0
Female	62	62.6	above 65	1	1.0
Total	99	100.0	Total	99	100.0

Source: Field survey of, 2018.

The above table 1 indicates that all of the respondents participated are above 18 years old. This is because all the clients of Wasasa Microfinance S.C are those group of population aging at least 18 years. About 1% of the respondent is above 65 years old. The rest of the respondents are grouped in the active age group of the population which is between 18 and 64 years of age. This also shows that the credit advanced to the clients of Wasasa Microfinance S.C Sabata Town Branch office is performed in accordance of the internal credit policy and priority of the institution. This is to ensure that the customers are those who are active part of the population and capable of engaging in income generating activities.

Most of the respondents constituting about 72.2% of the total are married. From the total respondents 22.2% are Single, while only 5.1% are Divorced. In Wasasa Microfinance S.C it is expected that more than half of the

group members should be married in advancing credit in groups. It is also better that individual lenders are married ones in getting credit from the institution. This is why most of the respondents in this study are married ones. But this does not mean that credit is not advanced to single clients. This is the reason that the number of single clients is the second largest among the respondents.

On an average, 97 percent of the respondents are literate. Based on the result in the table about 3 percent the respondent clients are illiterate. Those customers studying up to primary level of education constituted about 26.3 percent of the respondents. About 24.2 percent of the respondents are literate studying at least bachelor degree and above. The same percent of the clients studied secondary school. About 22.2 percent of the respondents have completed diploma or different undergraduate levels such as TVET programs.

Table 2. Literacy Level of the respondents.

Literacy level	Frequency	Percentage
Illiterate	3	3.0
Primary (1-8)	26	26.3
Secondary (9-12)	24	24.2
Diploma or Level	22	22.2
Bachelor Degree (BA/BED/BSc)	24	24.2
Total	99	100.0

Source: Field survey of, 2018

The educated customers have knowledge on wise use of money, effective plan for utilization of loan and understanding the loan agreement of Wasasa Microfinance share company, and illiterate customers has the less awareness on loan repayment performance as compared to literate ones, because they have low understanding on loan utilization, interest paid on loan, date of payment and maturity date of the loan. Therefore, it is good for the institution that most of the respondents under study are literate, which is good opportunity for the customers to have more awareness about the loan repayment and even more economically active than those illiterate ones.

The table 3 below illustrates the occupation of the respondents included in the study. As the table shows, from all the participants 65.7% engaged in their own business as the sources of income and livelihood. About 33.3% of the respondents are employees of government and other non-governmental organizations. Only 1% of the respondents run their livelihood with income generated through daily labor. These shows that majority of the customers of Wasasa Microfinance S.C Sabata town branch office are business persons participating in different areas, while others are employees having fixed salary that enables them to repay their loan.

Studies show that the influence of family size that is dependent on the household head has impact on loan repayment capacity [14]. As the study shows causes of loan default using different variables, house hold size (family number) affects the repayment of loan. If the number of households increase, household expenses in the family is likely to increase because most of the family members will be dependent on the household heads and other few members of the households. The consequences of increase in household expenditure may diminish the payment ability of the family.

Table 3. Respondents Occupation.

Occupation		
Type	Frequency	Percent
Own Business	65	65.7
Employee	33	33.3
Daily Labor	1	1.0
Total	99	100.0

Source: Field survey of, 2018

As it is presented in the table below about 21.2 percent of

the clients of Wasasa Microfinance S.C Sabata town branch office are single households heads having no dependents under their help. About 47.5 percent of the clients under study have two up to four family size, while 31.4 percent of the heads have family size ranging from five to eight. The result in the table 4 shows that about 61.7 percent of the clients have family size of three members and more. This shows that more than half of the clients of Wasasa Microfinance S.C Sabata branch office have more dependents under their responsibility. This may have impact on their capacity to repay their loan unless they rely on profitable business activities.

Table 4. Family Size of the respondents.

Family size	Frequency	Percent	Cumulative Percent
1	21	21.2	21.2
2	17	17.2	38.4
3	19	19.2	57.6
4	11	11.1	68.7
5	15	15.2	83.8
6	8	8.1	91.9
7	5	5.1	97.0
8	3	3.0	100.0

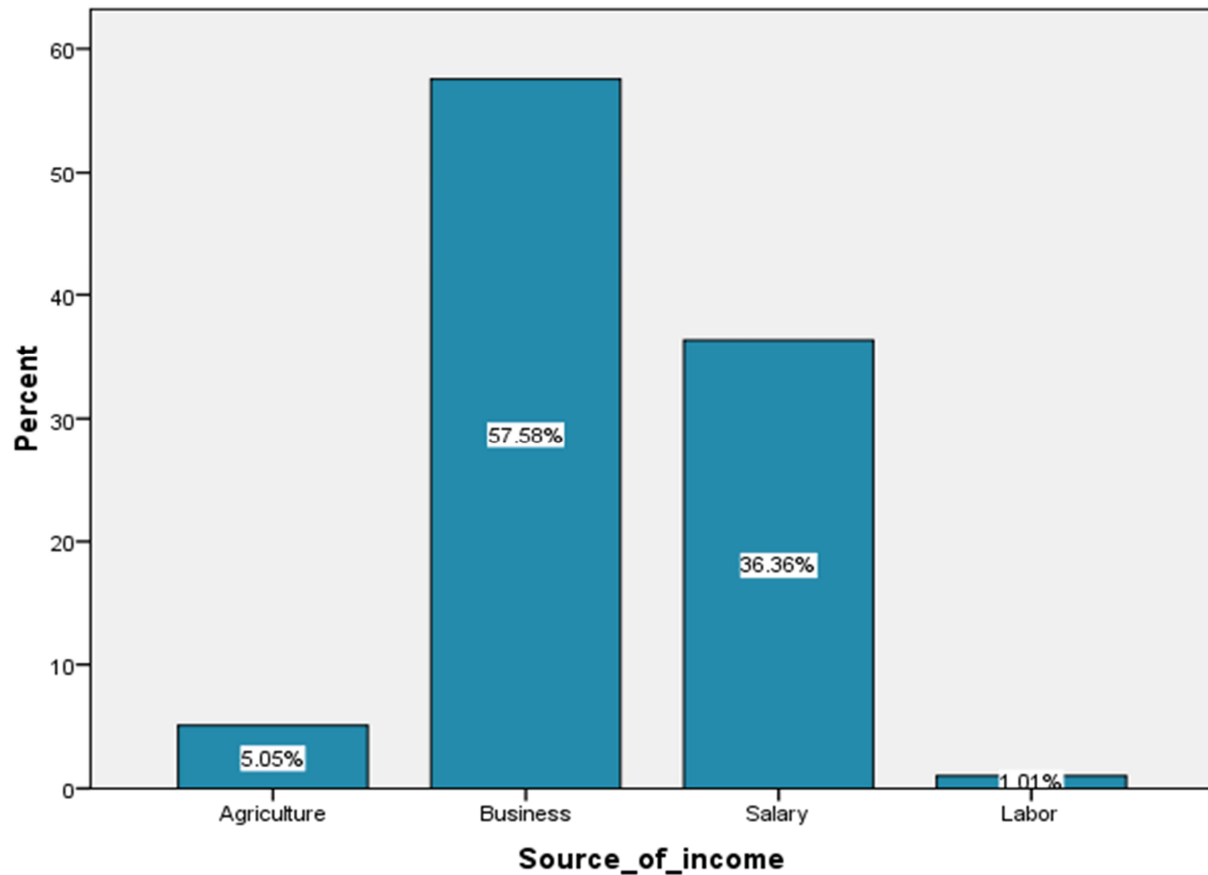
Source: Field survey of, 2018

4.2. Socioeconomic Condition of the Respondents

4.2.1. Source of Income of the Respondents

The figure below shows the source of income of the customers of Wasasa Microfinance S.C Sabata town branch office. Doing own business is the major source of income of the clients of the branch office. This constituted about 57.58 percent of the clients under study. The second source of income about 36.36 percent of the respondents is salary-based income. This is because Wasasa Microfinance S.C lends for its own staffs and other salaried employees having salary as a collateral for the loan.

About 5 percent of the clients of Wasasa Microfinance S.C Sabata branch office considered in this study participated in different urban agriculture activities like dairy production, animal fattening, raising and selling different flower seedlings and ornamental tree. Only 1 percent of the clients under study generate income from daily labor activities. It is a good opportunity for the institution because of more than half of the customers generate income from different business activities, while significant number of customers generate income from salary.



Source: field survey, 2018

Figure 1. Source of Income of the Respondents.

4.2.2. Monthly Income of the Respondents

Table 5. Monthly Income of the respondents.

Monthly Income	Frequency	Percentage	Cumulative Percent
<1,000	1	1.0	1.0
1,001-5,000	26	26.3	27.3
5,001-10,000	33	33.3	60.6
10,001-50,000	34	34.3	94.9
>50,000	5	5.1	100.0
Total	99	100.0	

Source: Field survey of 2018

The table above (See table 5) shows the monthly income distribution of the respondents. The result of the study illustrates most of the respondents' income falls between five thousand and fifty thousand birr per month. This constituted about 67.6 percent (67 respondents) of the total clients of Wasasa Microfinance share company Sabata Branch office. About 27.3 percent (27 respondents) of the clients of this Microfinance institution generate income ranging between one thousand to five thousand birr per month. About 5 percent of the respondents under study generate more than fifty-thousand-birr income per month. The result shows that Wasasa Microfinance S.C clients generate more income enough to repay their loan.

4.2.3. Purpose of the Loan

The table below that Presents 43.4% of respondents receive loan for expansion of their existing business sectors. About 31.3% of the respondents use the loan for Construction purpose, while 18.2% of the respondents use the loan from Wasasa Microfinance S.C Sabata Branch office to start new business activities. Only 7.1% of the respondents used the loan from this Microfinance institution for consumption smoothing.

Table 6. Purpose of Loan Received.

Purpose of Loan	Frequency	Percentage
Starting new business	18	18.2
Expansion of existing business	43	43.4
Construction	31	31.3
Consumption	7	7.1
Total	99	100.0

Source: Field survey of, 2018

The result shows that about 61.6 percent of the respondents use their loan to start new business and to expand their existing business activities. It is clear that more than half of the clients of the institution use their loan for running their own business. This may enable them to generate more income so that they can be able to repay their loan.

4.3. Internal Causes of Loan Default

4.3.1. Source of Information

Table 7 shows the source of information of the clients of Wasasa Microfinance S.C for different financial services. The table presents that 40.4% of the respondents get information from Employees of Wasasa, 33.3% of them from friends, 19.2% from advertisement and 7.1% of them from brokers. The result of the study shows that majority of the respondents get information about Wasasa financial services from employees of Wasasa Microfinance S.C, Sabata Branch office.

Table 7. Sources of information.

Source of information	Frequency	Percentage
Advertisement	19	19.2
Friends	33	33.3
Employees of Wasasa	40	40.4
Broker	7	7.1
Total	99	100.0

Source: Field survey of, 2018

The result show that more clients get information from employees of Wasasa who are professional source of information about financial services than any other sources of information for them like: friends, advertisement and broker. This is because internal employees are professional sources for different financial services including loan information of Wasasa to the society.

4.3.2. Lack of Training Before and After Getting Loan

Table 8 illustrates status of the training of the respondents (customers) before loan. About 50.5% of the customer received loan without training while 49.5% have got training before receiving loan. Therefore, more than half of the customers of Wasasa Microfinance S.C Sabata branch office received loan without training which enables them to be highly likely to have default loan. Because the understanding they have on utilization of loan and terms of loan agreements like interest rate, payment schedule, Maturity date, penalty when due and others. This forces them to be less informed

about different aspects of the loan advanced by Wasasa Branch office as compared to those who get proper training before loan. The result of the table below indicates that more than half of the respondents get loan without training before loan. This can be considered as the main cause of loan default in the institution.

Table 8. Training before loan.

Did you get training before loan?	Frequency	Percentage
Yes	49	49.5
No	50	50.5
Total	99	100.0

Source: Field survey of, 2018

According to study conducted in Kenya, insufficient training for borrowers in terms of how the loans will be used is the cause of loan repayment default [15]. The study also showed that majority of the borrowers did not use the amount of the loan given to them for the planned and approved project mainly because of lack of training before loan. The result of the above table indicates that more than half of the respondents get loan without training before loan. This can be considered as the main cause of loan default in the institution. Training of clients on recording keeping, how to use resources are factors that can lead to default of loan. The clients may spend their loan any how making it difficult for them to pay back the loan when time is due [16].

Table 9 illustrates clients' perception towards the effect of lack of training and awareness after getting loan on the delinquency of the loan. The result shows about 23.2% of respondents believe that effect of loan default due to lack of training after loan is very high, 29.3% of them as it is high, 30.3% of them are as moderate, 11.1% of them as low and 6.1% of them are as it is very low. As it can be seen from the result the effect of lack of awareness through training is moderate. According to Microfinance policy, customer has the right to have training before and after loan, about the service of the organization, wise utilization of loan and financial literacy. Failure to give training before and after loan for the customer cause for loan default.

Table 9. Lack of Customer training after loan.

Lack of customer training after loan		
Scale	Frequency	Percentage
Very high	23	23.2
High	29	29.3
Moderate	30	30.3
Low	11	11.1
Very low	6	6.1
Total	99	100.0

Source: Field survey of, 2018

4.3.3. Poor Loan Appraisal

Table 10 shows six other internal factors leading to loan default. The table shows that about 71.7% of the respondents believe that the effect of poor loan appraisal on loan default is very high. About 10.1% of them as it has high effect, while 8.1% of them believe that as it has moderate effect on loan default. Only 10.1 percent of the respondents believe that the poor loan appraisal has low and very low effect on loan default.

Table 10. Poor loan appraisal, Poor customer handling and Lack of continuous supervision.

Scale	1. Poor loan appraisal		2. Poor Customer Handling		3. Lack of Continuous Supervision	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Very high	71	71.7	37	37.4	18	18.2
High	10	10.1	35	35.4	28	28.3
Moderate	8	8.1	14	14.1	41	41.4
Low	4	4.0	7	7.1	8	8.1
Very low	6	6.1	6	6.1	4	4.0
Total	99	100.0	99	100.0	99	100.0

Source: Field survey of, 2018

The result indicates that poor loan appraisal has very high effect on loan default to the customers of Wasasa Microfinance share company, Sabata Branch office. This is because more than two third of the respondents believe that it has high effect on loan default. The result of the study undertaken in Ghana, shows that poor loan appraisal affects the status of loan repayment performance [9].

Poor loan appraisal affects the loan performance because of carelessness on assessment on socio-economic status of the customer, collateral assets and credit analysis including the 5C's that is, *confidence, character, capacity, capital and collateral* of the customer before advancing loan to the customer. This mainly happens when the customer's Credit history is not good and fails to apply loan appraisal mechanism like targeting the potential customer.

4.3.4. Poor Customer Handling

The above table presents the assessment of customers perception whether poor customer handling is the cause of loan delinquency and the degree of its effect. From the all clients under study about 37.4% believe that the effect of poor customer handling on loan default is very high, while about 35.4% of them believe as its effect is high in Wasasa MFI S.C Sabata Branch office. That is, 72.8 percent (72 out of 99 respondents) of them believe that poor customer handling has very high and high effect on loan default. About 14.1% of the respondents believe as poor customer handling has moderate effect, 7.1% of them as low and 6.1% of them are as it has very low effect on loan default.

The result of the finding shows, that Poor customer handling highly affects the loan repayment performance. This is because customers need healthy relationship with the internal employees of the institution. In case customers do not get due care from the employees, it will create negative attitude towards the services of the institution and loan repayment. This also affects the credibility and good will of the institution and has long term effect on the profitability of the institution.

4.3.5. Lack of Continuous Supervision

Supervision is important to identify the business status of the customer and whether they utilize loan for the purpose they receive or not. It also significant to develop the attitude of customers towards loan repayment and follow up of activities of credit officer whether they follow their customer efficiently or not. Table 10 above illustrate that out of all clients under study 18.2% of responds as the effect of loan default due to lack of Continuous supervision is very high, 28.3% of them as it is high, 41.4% of them are as moderate, 8.1% of them as low and 4.0% of them are as it is very low. The result shows that near to half of the clients under study believe that the effect of lack of proper supervision has moderate effect on the loan delinquency. Study conducted in Nekemte branch of Wasasa also confirmed that 85.2 percent of the clients (constituting 352 respondents) are not supervised on loan utilization lack of continuous supervision causes loan default [17].

4.3.6. Operational Inefficiency

Table 11 shows the clients view on effects of the operational inefficiency, under finance of loan and burden of interest on loan default. The result of the study illustrates 21.2% of the respondents believe that the effect of the operational inefficiency on loan default is very high, 44.4% of them as high, 24.2% of them as moderate, 2.0% of them as Low and 8.1% of them are as very low. Generally, clients of the Wasasa Microfinance S.C Sabata branch office know that the effect of operational inefficiency on loan default is high.

In most Microfinance institutions the possibility of training employees is very low because they focus on cost minimization and profit maximization principle. If the employees' ability is not improved through training the efficiency of employees towards operational activities of the institution falls. The inefficiency and incapability of employees therefore exerts negative pressure on the repayment of loan by customers.

Table 11. Operational Inefficiency, Under finance of loan and Burden of Interest.

Scale	4. Operational Inefficiency		5. Under Finance of Loan		6. Burden of Interest	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Very high	21	21.2	27	27.3	45	45.5
High	44	44.4	35	35.4	42	42.4
Moderate	24	24.2	30	30.3	7	7.1
Low	2	2.0	5	5.1	5	5.1
Very low	8	8.1	2	2.0	0	0
Total	99	100.0	99	100.0	99	100.0

Source: Field survey of, 2018

4.3.7. Under Finance of Loan

The above table (Table 11) illustrates the result of the respondents view on effects of under finance of loan on loan default. As the table below shows 27.3% of the respondents believe that it has very high effect, 35.4% of them as High, 30.3% of them as it is moderate, 5.1% of them as it is low and 2.0% of them as it is very low. The result of the study shows that under-finance of loan has high effect on loan default. Because in the respondents' opinion, if the Microfinance advances small loan under their capacity it will have moderate effect on their business because first of all they believe that the loan given from Microfinance institutions is low. Therefore, their plan will be on small business activities rather than planning on large businesses. In this way they can manage the effect of under finance.

4.3.8. Burden of Interest

Table 11 also presents the perception of the respondents on the effect of interest rate burden on loan default. As it is presented in the table 45.5% of respondents believe that the effect of burden of interest is very high, 42.4% of them as it is high, 7.1% of them as it is moderate and 5.1% of them are as it is low. From this result, it is clear that the effect of interest burden on the loan default is very high in Wasasa Microfinance S.C Sabata branch office. Almost 88 percent of

them believe that the effect of interest burden is high to cause the loan default in this institution. It is indicated that, high interest charged by the Microfinance institutions has been discovered to be the reason behind the alarming default. This study was also confirmed that high interest rates charged by banks tend to facilitate default by borrowers [18] [19]. In Microfinance the interest rate paid on loan is very high when considered to other financial institutions like bank. Because they have high operational cost and they needs high return (profit) from the operational activities. But this will have high effect on the loan default.

In general, the table below shows that the major cause of loan default in Wasasa Microfinance S.C Sabata branch office is poor loan appraisal. This constituted about 71.7percent of the respondents followed by Burden of interest which is the opinion of about 45.5% opinion of the clients under study. Operational inefficiency and poor customer handling are the third and fourth causes of loan default according to the clients of Wasasa under study. Thus, based on the opinion of the clients under study, poor loan appraisal, Burden of interest, operational inefficiency and poor customer handling are the major internal causes of the loan default in Wasasa Microfinance S.C Sabata branch office.

Table 12. Comparison of Internal Causes for Loan Default.

Internal Causes	Very high		High	
	Percentage	Rank	Percentage	Rank
Poor loan appraisal	71.7	1	10.1	6
Burden of interest	45.5	2	42.4	2
Poor customer handling	37.4	3	35.4	3
Lack of awareness	30.3	4	42.4	2
Under Finance of Loan	27.3	5	35.4	3
Lack of training	23.2	6	29.3	4
Operational inefficiency	21.2	7	44.4	1
Lack of supervision	18.2	8	28.3	5

Source: Survey of 2018

4.4. The External Causes of Loan Default

4.4.1. Poor Business Plan

Table 13 Shows effects of customers poor business plan, political instability and market price fluctuation on loan default. Accordingly, about 59.6% of the respondents believe that the effect of poor business plan on loan default is very high, 20.2% of them as it is high, 13.1% of them as it is moderate, 4.0% of them as low and 3.0% of them as it is very low.

Table 13. Poor business plan, political Instability and Price fluctuation.

Scale	1. Poor business plan		2. Political Instability		3. Price Fluctuation	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Very high	59	59.6	70	70.7	49	49.5
High	20	20.2	22	22.2	33	33.3
Moderate	13	13.1	7	7.1	16	16.2
Low	4	4.0	0	0	1	1.0
Very low	3	3.0	0	0	99	100.0
Total	99	100.0	99	100.0	49	49.5

Source: Field survey of, 2018

It is good that customers carefully plan the activities they want to perform after getting loan in order to be more profitable. This is useful for the borrowers especially, to become more profitable the business plan they prepare should show that the business is financially and technically feasible. Microfinance focus on the income generating business. But their failure to prepare profitable business plan enables them to be in bankruptcy. This is why about 60 percent of the clients of Wasasa Microfinance S.C believe that poor business plan is one of the external causes of loan default.

4.4.2. Political Instability

The above table illustrates the opinion of clients of Wasasa Microfinance S.C. on percentage effect of the political instability on loan default. 70.7% respondents believe that the effect of political instability on loan default is very high, 22.2% of them as it is high and 7.1% of them as it is moderate. Political instability in any country may cause different problems on business operations and their profitability. This is why more than two third of the clients of Wasasa Microfinance S.C Sabata branch office believe that the effect of political instability on loan default is very high.

4.4.3. Price Fluctuation

Table 13 above presents the respondents opinion on effects of price fluctuation on loan default. 49.5% of the respondents believe that the effect of price fluctuation on loan default is very high, 33.3% of them as it is high, 16.2% of them as it is moderate and 1.0% of them as it is low. Large proportion of the clients of Wasasa Microfinance S.C believe that the effect of market price fluctuation on loan default is very high. This is because as price fluctuates in the market there will be fluctuation in demand for the product supplied by the business enterprises. This will lead the business activities to be less profitable. The decrease in profitability of the business centers may cause loan default for the clients of this

institution.

The study result indicated that non-performing loans are mainly caused by an inevitable number of wrong economic decisions by individuals and plain bad luck (bad weather, unexpected price changes for certain products, etc.) [20]. This study also confirms price fluctuation caused loan default. When the price fluctuated the demands and falls. It also affects the income of the customer and retards the payment ability of the customer due to low income.

4.4.4. Illegal Business Activities

Table below illustrates the opinion of the respondents about the effects of illegal business activities, customer attitude and ghost loan, on loan default. Accordingly, 56.6% of the respondents believe that effect of illegal business activities on loan default is very high, 20.2% of them as it is high, 13.1% of them as it is moderate and 10.1% of them as it is low. The result show that more than half of the clients believe that the presence of illegal business activities will have very high effect on loan default in Wasasa Microfinance S.C Sabata branch office.

Illegal business activities affect the repayment status of the genuine clients of Wasasa who participate on different business sectors because illegal business activities will harm their business. This is because the price of products from illegal business activities is very low as compared to the genuine business sectors. This leads the genuine customers to bankruptcy since the lower price set by illegal business sectors do not cover the cost of genuine ones. When customers affected by bankruptcy the ability of their payment also falls. Careful analysis of business licenses and imposing control to minimize the illegal business activities is good to encourage the genuine business sectors lending from Wasasa Microfinance S.C. Sabata town branch office to generate profit so as to increase their repayment ability.

Table 14. Effects of Illegal Business activities, customer attitude and Ghost loan.

Scale	4. Illegal Business activities		5. Customer attitude		6. Ghost loan	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Very high	56	56.6	36	36.4	52	52.5
High	20	20.2	37	37.4	8	8.1
Moderate	13	13.1	20	20.2	29	29.3
Low	10	10.1	2	2.0	9	9.1
Very low	99	100.0	4	4.0	1	1.0
Total	56	56.6	99	100.0	99	100.0

Source: Field survey of, 2018

4.4.5. Customer Attitude

The table above (Table 14) presents the effects of customer attitude on loan default. Based on the result in the table below 36.4% of the respondents believe that the effect of customer attitude on loan default is very high, 37.4% of them as it is high, 20.2% of them as it is moderate, 2.0% of them as it is low and 4.0% of them as it is very low. Most of the customers of Wasasa Microfinance S.C Sabata town branch

office believe that customers attitude towards loan repayment will have high effect on the repayment of loan. Studies 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. They argued that a major cause of loan delinquency in MFIs is the customers' unwillingness and inability to repay [21].

4.4.6. Ghost Loan (Credit Transfer)

Ghost loan (also called credit transfer) mainly practiced between the family members, relatives, friends and others. Customers have less responsible for the loan received by other name and the opportunity to be defaulted of ghost loan is very high when the borrowers affected by risk of loss. Table 14 above illustrates the perception of clients on the

degree of effects of ghost loan on loan default. From the respondents about 52.5% of think that the effect of ghost loan is very high, 8.1% as it is high, 29.3% as it is Moderate, 9.1% as it is low and 1.0% of them are as it is very low. Therefore, the clients of Wasasa Microfinance S.C Sabata Branch office perceive that the effect of ghost loan (credit transfer) on loan default is very high.

Table 15. Comparison among External Causes of loan default.

External Causes	Very high	Rank	High	Rank
	Percentage		Percentage	
Political instability	70.7	1	22.2	3
Poor business plan	59.6	2	20.2	4
Illegal business	56.6	3	20.2	4
Ghost loan (Credit transfer)	52.5	4	8.1	5
Price fluctuation	49.5	5	33.3	2
Customer attitude on loan repayment	36.4	6	37.4	1

Source: Field survey of 2018

The above table 15 presents the major external causes of loan default in Wasasa Microfinance S.C, Sabata town branch office. Political instability in the country has very high effect on the repayment of loan, followed by Poor business plan. This constituted about 70.7% and 59.6% respectively, the presence of illegal business and ghost loan (credit transfer) are the third and fourth external causes of loan default, constituting about 56.6% and 52.5% respectively.

5. Summary of Major Findings

Wasasa Microfinance S.C gives a loan for individual and group both in rural and urban areas of Ethiopia. This study is made on 99 clients of Wasasa Microfinance S.C Sabata town branch office to assess the cause of loan default. The result indicates that more than half of the respondents were female clients to the institution. This constituted about 62.6% of the total population which is in line with the objective of Wasasa to empower women household heads. About 72.2% are married while, 97 percent of the respondents are literate. About 65.7% engaged in their own business as the sources of income and livelihood that enables them to repay their loan. Monthly income most of the respondents fall between 5000 and 50,000 birr per month, constituting about 67.6 percent (67 respondents). The result of the study shows that majority (40.4%) of the respondents get information about Wasasa financial services from employees of Wasasa Microfinance S.C, Sabata branch office. About more than half (50.5%) of the customer received loan without training. About 61.6 percent of the respondents use their loan to start new business and to expand their existing business activities.

There are different internal factors causing loan default like lack training before and after loan, poor loan appraisal, poor customer handling, lack of proper and continuous supervision, operational inefficiency, under finance of business loan and interest burden. Based on the opinion of the clients under study, poor loan appraisal, burden of interest, operational inefficiency and poor customer handling

are the major internal causes of the loan default. Among these the major cause of loan default is poor loan appraisal, constituting about 71.7 percent of the respondents, followed by burden of interest which is about 45.5% opinion of the respondents, operational inefficiency and poor customer handling are the third and fourth causes of loan default according to the clients of Wasasa under study. The study shows that the external causes of loan default in Wasasa MFI S.C Sabata branch office are: customers poor business plan, political instability, market price fluctuation, the existence of illegal business activities, customer attitude towards loan repayment and existence of credit transfer. The major external causes of loan default in Wasasa is political instability in the country, Poor business plan, the existence of illegal business and Ghost loan (credit transfer) constituting 70.7%, 59.6%, 56.6% and 52.5%, respectively.

6. Conclusion and Recommendation

The study was conducted on the assessment of the causes of loan default in Microfinance institutions in order to indicate information that enables to ensure its future sustainability. The survey made on clients and employees of Wasasa Microfinance shows that majority of them are females fulfilling the top priority of the company that is to empower poor female household heads. The majority of the respondents are married and literate from primary school to bachelor degree. More than half of the clients of the institution works in their own business generating income ranging between 5,000 and 50,000 birr per month. The study reflects the internal causes of loan defaults are: poor loan appraisal, burden of interest, poor customer handling, lack of awareness, lack of training, operational inefficiency, lack of supervision and interest burden while the external causes of loan default are: poor business plan, political instability, price fluctuation, illegal business practice, customer attitude and ghost loan (credit transfer). Based on the opinion of the clients under study, poor loan appraisal, Burden of interest, operational inefficiency and poor customer handling are the

four major internal causes of the loan default. The four major external causes of loan default in Wasasa are political instability in the country, Poor business plan, the existence of illegal business and ghost loan (credit transfer).

The result of the study shows there are different internal and external causes of loan default. It is recommended that Wasasa Microfinance S.C control the internal causes of loan default through awareness creation by training both customers and employees and increasing institutional efficiency in operational procedures and policies. Wasasa Microfinance S.C has good loan appraisal mechanism but not implemented by front line staffs. In order to solve this problem, the institution recommended to focus on capacity building, incentivizing the model staffs and using clear monitoring and evaluation system.

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