

IMPACT OF CREDIT RATIONING AND REPAYMENT PROBLEMS IN THE CASE OF AMBO WOREDA ESHET MICROFINANCE INSTITUTION

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ABSTRACT

This study was conducted with the aim of analyzing the factors that affect microfinance repayment problems, evaluating the loan rationing mechanisms. The study was conducted in Eshet Microfinance Institution, Ambo Woreda West showa zone (Oromia) Regional State, Ethiopia. Data were collected through semi-structured questionnaires that were distributed to members' through interviews with Eshet Microfinance manager, credit officers and credit committee members. The findings revealed that major factors considered by Eshet Microfinance for credit rationing were Savings, education, quantum of loan, collateral asset, age, loan diversion, repayment mode and training. The study also found out that among the factors that were used for credit rationing in Microfinance age influenced loan repayment performance. From the findings, it was concluded that Eshet Microfinance's credit rationing process was weak since it failed to discriminate between credit worthy and non-credit worthy borrowers and thus resulting in poor borrower's loan repayment performance. Credit rationing system needs to take into account the factors that influence loan repayment performance when rationing loan applicants. Based on the research findings, the study recommends members' training in proper loan utilization and business management skills so as to invest in profitable business ventures and improve their loan repayment performance. The government should provide sufficient financial and human resources to cooperative institutions so that it can extend its supportive roles to Eshet Microfinance Institution to improve its service delivery to members.

KEYWORDS: Cooperative Society, Credit, Performance, Rationing