

DETERMINANTS OF CREDIT DEFAULT RISK OF MICROFINANCE INSTITUTIONS, IN ASSOSA ZONE

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ABSTRACT

The paper deals with assessment of the determinants of default risks, in microfinance institutions in Assosa zone. The problem identified was that, microfinance programs perform meagerly, because of delay in repayment and high default rates. Hence, it has been essential to establish if, these limitations prevailed in the selected 8 MFIs, in the zone schemed by determining the default rate and the grounds of the observed series. Therefore, in order to address those issues, the researchers collected primary data, collected through structured questionnaire and captured secondary sources of data. The data analysis tools used were descriptive and inferential analysis. The logistic probit model was employed, to estimate the determinants of credit default risk and the repayment performance. The finding shows that credit diversion is positively related to the number of dependents supported by the borrower, use of financial records, credit/loan size and number of times borrowed (sig 10%) from the same source. Income from other sources than a credit / loan, loan supervision made to the borrower and suitability of credit repayment period (1%) were found to be negatively related to loan diversion. The negative sign probably implies the use of diverting funds for non-income generating purposes, and it is significant at 5%. In addition gender, credit/loan size and number of dependents are all negatively related to the probability of credit repayment. Only suitability of the repayment period is significant at the 1 % level. So, the MFIs are recommended to solve problems observed in its rationing mechanism. Moreover, the processes should be worked out to identify borrower capacity and any obligations that may interfere with repayment. Finally, they should intensify recovery of outstanding balances from defaulters through increased borrower follow-up.

KEYWORDS: MFIs, Credit Default, Credit Diversion, Loan Rationing, Creditworthy