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Factors Affecting Performance of Microfinance Institution in Bale Zone, Oromia Region

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Abstract

Currently micro-financing has become one of the most powerful development tools for combating poverty primarily by providing loan to the poor section of the society. Owing to this, the number of micro financing institutions serving the poor in Ethiopia has grown to over 32 with in short period of time. The growth and expansion of microfinance programs and an increasing attention to microfinance as a poverty reduction strategy has given rise to a number of questions. The main objective of the study is to examine factors that influence the performances Microfinance institutions in Bale Zone. Primary data were collected from 389 household heads through Structured and unstructured interview. Secondary data were mainly collected from three years threes (2005 to 2007) annual reports of the selected MFI. The study used both quantitative and qualitative methods of data analysis. The result revealed that lack of experience of employees, inadequate trained manpower and lack of efficient system to enforce contracts as the main factors influencing the performances of MFIs in the study area. In order to reduce the challenges, continuous and need based capacity building programs should be put in place.
Keywords: descriptive study, performance factors, Micro finance, Bale Zone, Oromia Region.

INTRODUCTION

According to Association of Ethiopian Microfinance Institutions (AEMFI) Microfinance industry was introduced in Ethiopia in 1980s when the government failed to deliver subsidized credit to poor farmers. It was designed to seek effective market oriented solutions to the provision of sustainable and effective financial services to low and middle income group of people living in both rural and urban areas. During the emergence of this industry most microfinance firms were established to support the effort of poverty reduction by insuring their operational and financial sustainability AEMFI (2008).

Since 1980s, the sector has registered significant growth and still new microfinance firms are joining the industry. In Ethiopia pioneer microfinance firms re established by transformation of rural credit and saving scheme development and other projects by initiation of regional government after the issuance of the proclamation to license and supervise microfinance institutions by National Bank of Ethiopia (NBE) in 1996. Currently, there are about 32 microfinance institutions operating in the country and providing different financial services like loan, savings, and insurance services to rural group based clients and urban small and micro enterprise practitioners (AEMFI, 2008).

A large number of the population of the globe has a problem with access to finance. This is because formal commercial banks take into consideration the poor people as un-bankable as a result of their information irregularities or asymmetries and lack of collateral. Micro finance involves the provision of financial services to the poor and low income people with micro business (Otero, 1999 cited in Marzys, 2006). They are helpful tools to fill the gap of mainstream banks' limits in reaching the rural and urban poor people and the uncovered (weak) non-poor with financial banking services. They are intended to reduce poverty and mitigate risk by letting the low income and poor people have access to credit, savings and insurance. MFIs have grown subsequent to Muhammad Yunus's establishment of the Grameen Bank Project in 1976 (Cabraal et al, 2006).

However, there are substantial differences in the stage of development and performance among different nations. One of the most stylized facts of developing economies is that formal financial institutions leave the poorest population tightly constrained in their access to financial services. It is also widely recognized that economic progress relies largely on access to financial services such as savings, insurance, and credit. The large majority of the poor population, there is evidence to support the proposition that microfinance institutions and credit unions can fill some of the gap (Barham, *et. al,*. 1996).

Micro-Finance Institutions (MFIs) can be defined as any activity that includes the provision of financial services such as credit, savings, and insurance to low income individuals which fall just above the nationally defined poverty line, and poor individuals which fall below that poverty line, with the goal of creating social value. The creation of social value includes poverty alleviation and the broader impact of improving livelihood opportunities through the provision of capital for micro enterprise, and insurance and savings for risk mitigation and consumption smoothing (Smith, 2006).

Most poor people manage to mobilize resources to develop their enterprises and their dwellings slowly over time. Financial services could enable the poor to leverage their initiative, accelerating the process of building incomes, assets and economic security. However, conventional finance institutions seldom lend down-market to serve the needs of low income families and women headed households. Therefore, the fundamental problem is not so much in an affordable term of loan as lack of access to credit itself (Kim, 1995). Lack of the access to credit for the poor is attributable to practical difficulties arising from the discrepancy between the mode of operation followed by financial institutions and the economic characteristics and financing needs of low income households.

Several studies noted different causes for poverty in Ethiopia. Some argued that the cause of poverty in developing economies among other things is that the poor does not have access to credit for the purpose of working capital as well as investment for its small business (Jean-Luc, 2006). The major causes of the high prevalence of poverty in Ethiopia include lack of asset, employment opportunities, income, skill, education, health, etc. This is aggravated by soil degradation, deforestation, drought, civil war, and inappropriate government policies (Wolday, 2000). Poverty reduction is one of the declared objectives of the Ethiopian Government since the replacement of the socialist Dergue regime. This commitment has been reaffirmed repeatedly.

Poverty reduction is one of the declared objectives of the first National Development Program (NDP) of 1995 and of the second NDP for 2000/05. A major result of latter NPD is the creation of the Interim Poverty Reduction Strategy Paper (IPRSP)(Al-Bagdadi and Brüntrup, 2002).

In Ethiopia, microfinance services initially started operation with donor fund and as of September, 2012 there were 32 microfinance institutions serving around 2.9 million rural and urban poor & low income people of Ethiopia. The institutions have been offering broad range of financial services in the entire country. During this period, the MFIs had deposits of Birr 5.3 billion in the type of compulsory and voluntary savings. In addition, total assets, total outstanding loan, and total capital stood at Birr 13.7 billion, Birr 9.8 billion, and Birr 3.9 billion respectively (Biritu, 2012).

The formation of sustainable Microfinance Institutions (MFI) that can reach a large number of poor people who are not served by the commercial banks has been the main tool of poverty alleviation and the recent development strategy of Ethiopia. In Ethiopia, the poverty reduction strategy is becoming the operational framework to translate the global Millennium Development Goals (MDGs) targets in to national action (UNDP, 2005).

Microfinance leads to more education, better health, improved diet and nutrition, and greater resilience to disasters for poor families. In addition, it lays a foundation that allows other humanitarian intervention to be effective while providing the economic engine that allows the transition from dependency to sustainability (Vision Fund Annual Report, 2008). As indicated above MFI play pivotal role to take out the poor out of poverty.

However, there are still problems with regard to their financial and operational performances. Hence this study will try to assess these problems and recommend sound policy recommendation.

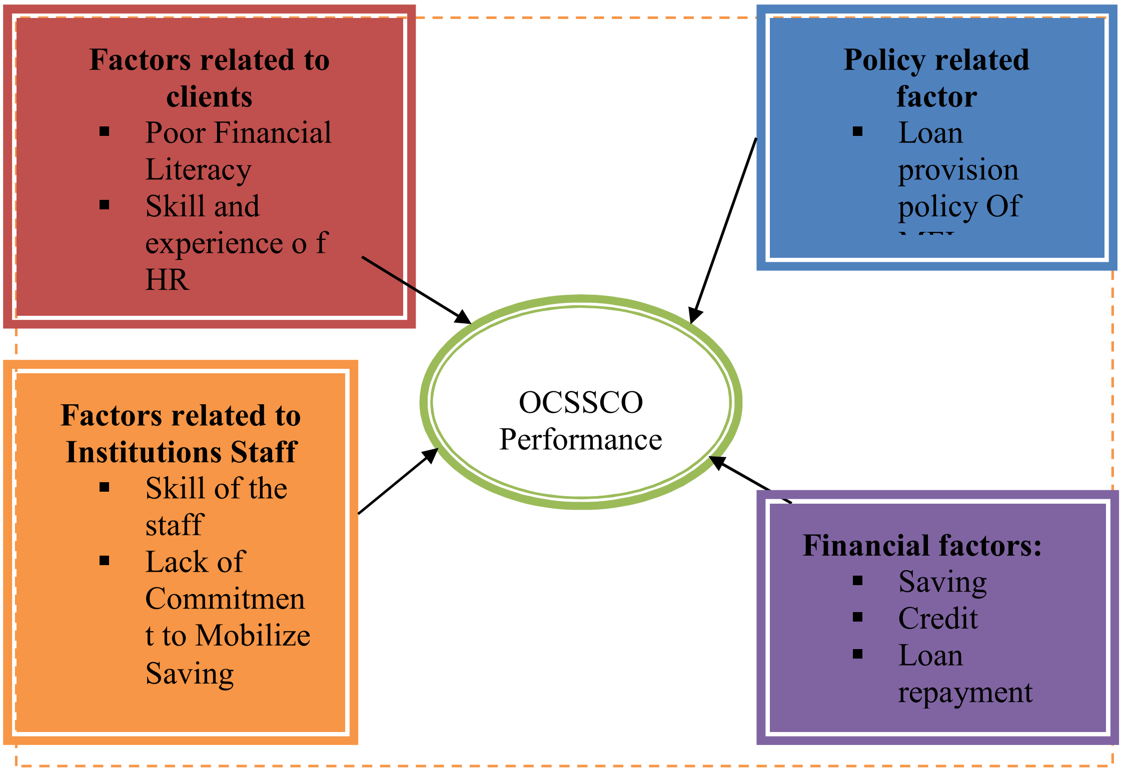
MFIs in Ethiopia are facing problems of loan loss, limited fund for lending, unprofitable, problems related entrepreneurial quality of the client, staff with limited technical and banking skills, and weak supervision. In general, MFIs in Ethiopia lack the above qualities which are crucial for the viability 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).

MFIs should start by defining a market gradually deal with finding the right client and appropriate mix of products, this means providing quality services in terms of timeliness, appropriateness of loan terms and condition given the customer; convenience and transaction cost of customer, clients relations etc. However, Chao-Beroff's study explains, the service delivery methodologies and product of Ethiopian MFIs are supply driven instead of being demand driven. The MFIs usually start by copying the lending methodologies and products from other MFIs. In addition, clients are forced to fit into the procedures of the MFIs. Therefore, by studying the performances of MFI and the challenges they the study try to indicate future policy direction and implementation strategies.

Conceptual Framework

Both internal and external factors determine the success of microfinance firms (OCSSCO, 2008). These include increased portfolio size, reduced client loss, improved repayments and savings are those internal factors that should be enhanced by effective marketing strategies. Policy related factor such as loan provision policy of MFIs Poor Ledger Positing were also considered in the framework. Clint oriented factors like Skill of the staff lack of the institutions commitment to Mobilize Saving and their effect on the performances of MFIs were critically analyzed. Moreover, finical factors namely saving, credit and loan repayment system and their relationships with the performances of MFIs were considered and analyzed. The following figure will clearly depict the relationship between various factors and their effect on the performances of the study microfinance institutions.

Fig1.Conceptual relationships among factors that shape performances of MFIs



***Source:**-the researcher own construction, 2015*

Methodology

Description of the study Area

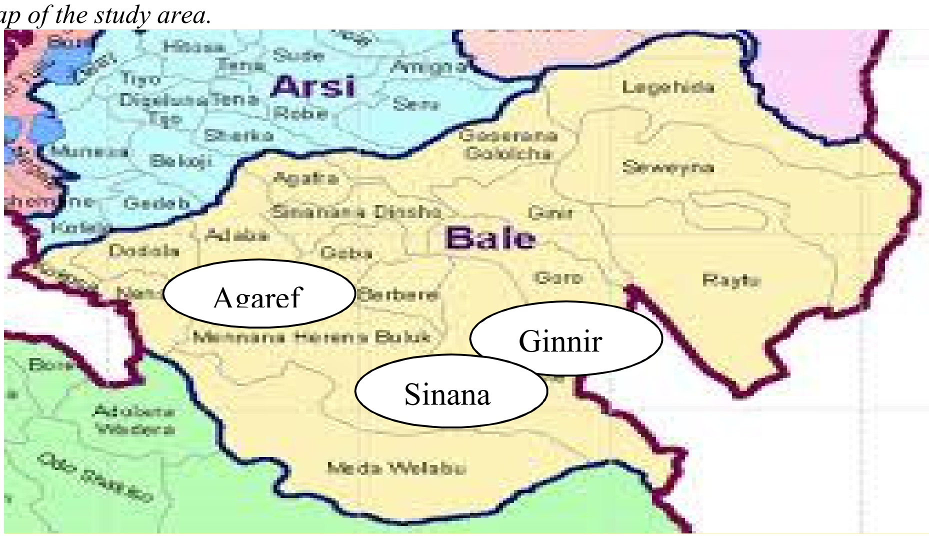
The research area is located in Oromia Regional State of Bale zone. Bale zone is one of the eighteen zones of Oromia regional state. It is found in the southeast at 430 km from the capital city of Ethiopia, Addis Ababa. It is bounded within North Arsi Zone in South Guji Zone in the East West Harerge Zone and in west with West Arsi Zone. The total land of Bale Zone is 63,555km^2. According to Ethiopian Statistical data of 2000 E.C, the total numbers of Bale Zone Population is 1,502,349. From these, 186,135 people are living in town and the remaining 1,316,214 are living in the village.

The temperature of this area fluctuates in the range of 3.5^c-32^c, which is very favorable for crops which has dominated the agricultural products from the field among barley and wheat are the over helming selling over almost all from sight. The topology of the land of this area can be organized as plain (55.89%), the ups and down (30.75%), mountain (12.94%) and valley accounts for 0.41% and for altitude between 300m-4337m (CSA, 2007).The dominate population of Bale zone is 88.9% Oromo ,7.6% Amhara , and 3.5% other ethnicity. The official language is Afan Oromo. Bale Zone has different historical place like Sofumer Cave, Dirre Shekhussen, Bale Mountain Parke, Haryana forestry, Tulu Dimtu Mountain and others.

The National Bank of Ethiopia (2011) stated that there are 32 MFIs operating through 498 branches and 635 sub-branches in Ethiopia which serving about 2.9 million clients as compare with less than 0.8 million bank clients and 0.3 million insurance clients. MFIs offer extensive of financial services comprising lending, savings, insurance, money transfer, collecting taxes on behalf of tax authorities, paying pension payments etc to low income people and clients. MFIs developed within less than 20 years in Ethiopia and are the well-known financial services providers for the poor people in the urban & rural areas. The government support MFIs by means of tax exemption and other empowerment processes. Three Ethiopian MFIs such as Oromia Credit and Saving Share Company (OCSSO), Dedebit Credit and Saving Institution (DECSI) and Amhara Credit and Saving Institutions (ACSI) are on the top 10 list in Africa and the largest MFIs in Ethiopia. The National Bank of Ethiopia regulates and controls MFIs, Banks and insurers.

Oromia Credit and Saving Share Company /OCSSCO/ is a share company established compliant with the obligations of the National Bank of Ethiopia. The owners (share holders) of the Company are the government of Oromia Regional State, and Oromia Regional Development Organizations and Individuals (AEMFI, 2000).

Figure 2: Map of the study area.



Oromia Credit and Saving Share Company (OCSSCO) is a registered and licensed Microfinance institution operating in Oromia National Regional State. It was initiated on June 1995 as a project under Oromo Self Help Organization (OSHO) with the name of Oromia Rural Credit and Saving Scheme Development Project (ORCSDP) and undertaken its operation under the mandate of the mother organization. OCSSCO was established in 1997 based on the commercial code of Ethiopia and proclamation No. 40/1996 by five shareholders. OCSSCO registered and commenced its formal operational activities with head office in Addis Ababa and four branch offices namely Kuyyu, Shashemene, Hetosa and Sinana Dinsho in 1997.

Currently the company has 306 branches and 33 sub branches across the region. The existing number of staff has also reached more than 4563. Besides, it opened branches in Harari and Dire Dewa and it is on providing remittance services from abroad. OCSSCO offer various financial services in the rural and urban areas of Oromia region. The company has also commenced micro bank services in 20 commercial towns of Oromia since 2014/15. OCSSCO's products have been diversified in the last 18 years and presently it provides services like loan, saving, micro insurance, money transfer, M-Birr and advisory services. OCSSCO provides Compulsory saving, Handhura (saving for child),Sooramaa (saving for retirement),current account ,fixed time deposit and voluntary saving (pass book saving) products for both clients and non-clients to encourage the saving culture of the society.

In 2007/8, the company introduced two new saving financial services called "Handhuuraa" (saving for child) and "Sooramaa" (saving for retirement). The naming of these financial products was taken from rich Oromo people's culture. These financial services were introduced with the hope of transforming this culture to modern saving in terms of cash; however, these new financial products were not successful as management expectation. Only few branches reported "Handhuura" saving clients. OCSSCO has commenced Micro Small Enterprise/ MS financing in 2004/5 and has been expanding its operation since then. The primarily focus areas of MSE loan are: Agro Industry: Manufacturing, Construction, Trade and Machinery lease. As its operation size expands, the clients' out reaches have also been augmenting and currently the numbers of clients who have been annually receiving OCSSCO's service reached around 500,000 out of which the women's share is 35%. The number of staffs also highly increased and reaches 4563 in the 2015(AEMFI, 2000).

Sampling Design

The ultimate objective of sampling is to select a set of elements from a population. The researcher used stratified random sampling to determine the sample size. Respondents are grouped into strata consisting of borrowers, depositors, branch managers, finance officers, branch casher, customer service officer, human resource and zonal MFI experts. The random sampling enhances the likelihood of accomplishing this objective and also allows for the objective assessment of the reliability of the sample. According to Best and Kahn (2003), sample can simply be defined as the representative of the population. The degree to which the sample represents the population is the degree to which the result of one is applicable to another. To do this, the researcher wants to have the sample. The selected sample is actually involved in the research, to be representative of the larger population.

In this study Bale zone is purposefully selected because of the availability and accessibility of MFIs. OCSSCO has eighteen branches in Bale zone. From these three branches were selected based on random sampling techniques. The total population is 14,581 microfinance credit users, depositors and staffs of the three branches were considered. In addition, MFI zonal officers, operation managers, human resource heads, finance managers and accountant that is believed to provide the necessary information for the intended research.

Sample Size Determination.

In this study, to determine the sample size from the target population Slovin's sampling formula was used 95% confidence level.

$$\mathbf{n = \frac{N}{1+N\,(e)^2}}$$

Where: **n=** sample size,

N=Population size=14,581, and

e=sampling error/level of precision=5%

In order to select the actual sample size the researcher followed two steps.

The first step**:** Using this formula the sample size is:

$$\mathbf{n = \frac{N}{1+N\,(e)^2}}$$

$$n= \frac{14,581}{1+14,581(0.05)^2} = 399$$

The second step:

From the total population the researchers made proportionate random sampling method and in order to get the sample proportion of each stratum the researcher will use the following formula i.e.

Sample proportion (%) = Elements in each stratum= n/N= 399*100/14,581= 2.74 (0.0274%)

To select the elements = percentage (%) X Sample size from each Stratum and the result is presented in the following table.

Table: 1. Proportion of Sample Size

No	Target Population	Number	In %	Sample	Number of Sample Each Branches		
					Ginnir	Agarefa	Sinana
1	Branch performers and Zonal experts	175	0.0274	6	2	2	2
2	Borrowers/Loan clients	5143	0.0274	140	46	47	47
3	Depositors/Saving Clients	9263	0.0274	253	85	84	84
	Total	14,581		399	133	133	133

Source: - Researcher own construction, 2015

Sources of Data

Data from financial and operational performance of MFIs were collected in three districts namely Ginnir, Agarfa and Sinanas. The data for the study was obtained from both secondary and primary sources. The primary data were collected through questionnaire using face to face interview with sample households (Micro finance credit users and depositors). The other primary data sources are group discussions with MFI users, government MFI experts, from *woredas* and Zonal offices. The focus groups constituted 8 members of MFI users from each group. For this purpose 3 focus group discussions were made in Ginnir, Agarfa and Sinana branch offices. A checklist was used to guide the group discussion. In addition informant interview was conducted with concerned Zonal and *woreda* managers and process owners. Moreover, secondary data were collected from government and non-government institutions.

Population of the study

All individuals in the study area who received microcredit in the last three years were considered for the study. There are about nearly 32 registered MFIs as per the National Bank of Ethiopia (NBE) database. These MFIs operates in the different regions of the country and among them Oromia Credit and saving Share Company (OCSSCO) is one of operating in Bale Zone. Nonetheless, it was much better and exhaustive for the study had a chance of accommodating all MFIs found in Bale Zone. However, to make the study manageable and to evaluate the problem in detail, the researcher was forced to delimit the study to incorporate only 3 of the OCSSCO branch MFIs found and operated in Bale Zone.

Method of Data Collection

The desired information for the study was gathered through different data collection tools/ instruments. To this effect, the data collections were conducted with the help of questionnaires and interviews. Moreover; document analysis was employed as discussed here with. Two types of questionnaires were prepared to get relevant and reliable data from operational managers, human resource heads, finance managers, accountant and zonal experts of the MFIs. The purpose of interviewing was to find out what is in or on someone else's mind. Its purpose is not to put things in someone's mind, but to access the perspective of the person being interviewed (Best and Kahn, 2003). They further explained that, interviews permit researchers to obtain important data they cannot acquire and inaccessible through other data collection instruments. Hence, both the structured and semi structured interview questions were prepared and used to obtain information about the financial and operating performance of Microfinance Institution in Bale Zone. Moreover, secondary sources of data was obtained mainly from documents like audited financial reports, annual reports, MFIs yearly book, and other relevant materials was taken as sources of information.

Data Analysis

In analyzing the data gathered, both the qualitative and quantitative methods of data analysis were employed. For the quantitative data analysis different factors affecting the institutional viability of MFIs were considered. The institutional viability of the MFIs was evaluated with respect to the attainment of institutional goals, Ethiopian legal and regulatory framework for ownership and governance of MFIs, the capacity of employees of the MFIs, and products and services offered by the selected MFIs. The financial performance of the MFIs was analyzed on the portfolio quality, sustainability and profitability and efficiency of the selected MFIs. Moreover, data generated from the financial statements were analyzed by using descriptive statistics such as percentages, mean/average, frequency, and chi-square tests. Qualitative data generated collected using the unstructured interview was analyzed in the course of data collection with the help of the target respondents by narrating and interpreting the situation deeply, so that the real picture of the financial, operational and institutional performance were understood.

Results and Discussion

This chapter presents results and discussion of findings of the study. Tables; graph and charts were used present the result. Branch employee/zonal expert, were interviewed to identify microfinance service attributes demanded by clients. Loan clients were asked about their view to find out opinions as the key elements or attributes in loan and saving of financial service, to identify their relative importance and evaluate the performance of the company (OCSSCO) in delivering these values. To collect the required data based on the study objectives and plan, semi structured questionnaires were distributed to the three selected MFIs clients and the zonal experts of OCSSCO. A total of 410 questionnaires were distributed for the responses. Out of 410 questionnaires sent to the respondents, 399 were received representing an overall response rate of 100%. Quantitative and qualitative data were collected and analyzed using various statistical techniques. The result from output of analysis and discussion about parameters were presented in the following sections.

Demographic and Socio-Economic Characteristics of the Respondents

This part emphasized the demographic and socioeconomic characteristics of the respondents such as sex, educational level, marital status and age of respondents. The result obtained was presented in the following table. As it can be seen from the table 2 below, we found 250(64.3%) male respondents and the remaining were female. This indicates majority of clients in the study microfinance institutions are male dominate. This implies the participation of female clients in loan based business is less than male clients.

Table: 2. Sex of the respondent

Sex	Frequency	Percent
Male	250	64.3
Female	139	35.7
Total	389	100.0

Source: *Own survey, 2015*

Figure 3 revealed classification of the marital status of the respondents. The result showed that more than half of the respondents 248(63.8%) were married while 122(31.4%) were unmarried and divorced. This implies that married households highly participated in the micro-finance activities. This could be because of the more responsibility shouldered by married households as compared to unmarried households.

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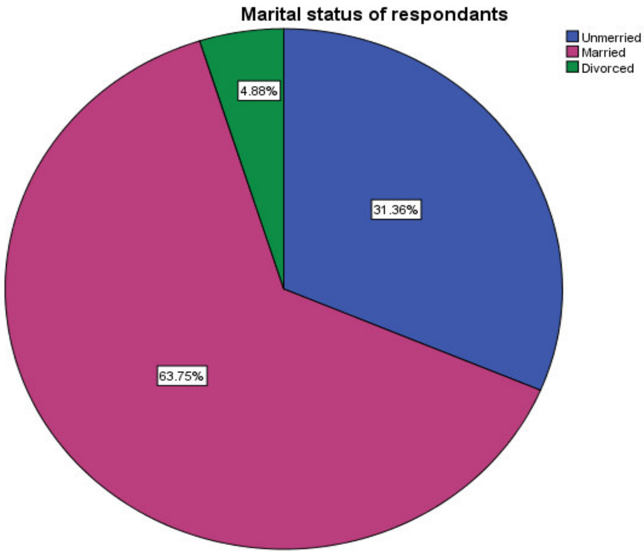
Vol.8, No.16, 2016

Figure: 3. Marital Status of Respondent



Source: *Own survey, 2015*

The other demographic variable considered in this study was age of the respondents. In this study we found 200(51.4%) of the respondents were the age range in between 18-30 years, while 81(20.8%)and 87(22.4%) respondents age were in between 31-40 and 41-50 years, respectively. The result indicated that majority of the respondents of the MFIs were found to be youth in terms of their age. This is inline the government policy direction where the youth in Ethiopia were given due attention to participate in small-scale and medium scale business ventures.

Table:4.Age of the respondents

Age	Frequency	Percent
18-30	200	51.4
31-40	81	20.8
41-50	87	22.4
50-60	19	4.9
>60	2	.5
Total	389	100.0

Source: Own survey, 2015

Distributions of respondents along with their respective ranch office were assessed. Accordingly we found 120 (30.8%) of respondents from Ginnir branch, 119(30.6%) from Agarefa branch and the remaining 122(31.4%) and 28(7.2%) were the share of Sinana OCSSCO branch and from zonal and the three MFIs experts, respectively. The distribution of above data was depending on the sample size of the research design.

Table: 5. Woreda and Zonal Experts of MFIs in proportion

Woredas	Frequency	Percent
Ginnir	120	30.8
Agarefa	119	30.6
Sinana	122	31.4
Zonal and the three MFIs Expert	28	7.2
Total	**389**	**100.0**

Source: *Own survey, 2015*

One of the descriptive results of this study is classification of the respondents on the basis of their educational qualification. To this effect, table 6 below revealed that around 61(15.7%) of the respondents were those who cannot read and write, 41(10.5%) elementary school completed, 82(21.1%) secondary school completed, 118(30.3%) TVET graduates, 25(6.4%) college diploma holders and 62(15.9%) were found to be first degree and above education level holder. The result vividly showed that more than half (52.6%) of the respondents were holding educational qualification of TVET graduated and above.

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Vol.8, No.16, 2016

Table: 6.Educational level of the respondents in Woredas and experts cross tabulation.

Educational level of the respondents	Woredas and experts with education				Total
	Ginnir	Agarefa	Sinana	Zonal $ the three MFIs expert	
Do not read and write	12	30	18	0	61
Elementary School	15	10	13	3	41
Secondary School	19	22	38	3	82
TVET graduate	46	38	33	1	118
College diploma	8	7	10	1	25
First degree and above	20	12	10	20	62
Total	120	119	122	28	389

Source: *Own survey result, 2015*

The numbers of clients who get access to financial services from the respective MFIs were critically examined. Based on the above table 7, on average 3288(72.5%) clients were served in Agarfa *woreda* from 3993 planned clients. However we found 3252(68.8%) and 3168(67.5%) achievement in Ginnir and Sinana *woredas* from their planned 4575 and 4722 average plan to serve, respectively (see Table 7).

Table: 7. OCSSCO Zone Agarfa,Sinana and Ginnir Branch's clients served against performance

S/N	Branchs	Clients served Plan against Performance in the year				
	Ginnir	2005E.C	2006E.C	2007E.C	Total	Average
1	Planed clients Serve	3498	3978	6251	13727	4575.7
2	Clients served	2279	4903	2574	9756	3252
3	In Percent	65.15%	Over 100%	41.2%		68.8%
	Agarefa					
1	Clients served plan	2711	3178	6091	11980	3993.3
2	Clients served	2155	5395	2314	9864	3288
3	In Percent	79.5%	Over 100%	38%		72.5%
	Sinana					
1	Clients served plan	4163	4678	5326	14167	4722.3
2	Clients served	2377	4386	2742	9505	3168.3
3	In percent	57.1%	93.8%	51.5%		67.5%

Source: Own computation from MFIs' financial statements, 2015

The amount of loan received from the MFIs play crucial role in improving the livelihoods of the clients. Accordingly, the respondents were asked to explain their opinion with the regard to the size of loan disbursements. The result showed that 249(64%) of them agreed that the loan size the received was fair. But 113 (29%) of the respondents reflected that the amount of loan size was found to be smaller than their required amount and the reaming 27(6.9%) of the respondents replied that the amount of loan they obtained was sufficient enough as compared to their demand. These shows that MFIs in the study areas are no fulfilling the clients borrowing need in the given period.

Table: 8.Opinion of respondents about the respondent's loan size received from MFIs?

Perception of the Size of loan	Frequency	Percent
not satisfy	249	64.0
Moderately satisfy	113	29.0
Medium	27	6.9
Total	389	100.0

Source: Own Survey, 2015

With the view of assessing the financial performances of the MFIs, their loan disbursement plan against their initial plan was investigated 18,131,410.27(103%) and 38,315,452.33(102 %) loan disbursement plan achievement was found in Ginnier and Sinana *wordas* against their three years plan to serve, respectively. The average loan disbursed plan and disbursed index in the above in Table 9 below showed that there was increase in the average amount of loan disbursed to borrowers or clients from the year 2005 to 2007. This showed over achievement in their perforamance. The result clearly illustrated that the three sample OCSSCOs branch loan disburse in *Sinana* from its plan (102%), Ginnir (103%) and *Agarefa* from its plan (85.90%) disburses satisfactory average loan per a single borrower in those years of operations.

Table: 9. OCSSCO'sloan disbursement plan against performance

S/N	Branchs	Loan Disbursement Plan against Performance in the year				
	Ginnir	2005E.C	2006E.C	2007E.C	Total	Average
1	Amount L/D Plan	13930332	11400178	27097550	52428060	17476020
2	Amount of L/D	11102300	24061922	19230008.8	54394230.8	18131410.27
3	In percent	79.7%	211%	71%		103%
	Agarefa					
1	Amount L/D Plan	9561824	9000178	30280400	48842402	16280800.67
2	Amount of L/D	7493029.77	22880712	11555173	41928914.77	13976304.92
3	In percent	98.4%	254%	38.2%		85.9%
	Sinana					
1	Amount L/D Plan	14913250	13500178	84246800	112660228	37553409.33
2	Amount of L/D	9821422	24078128	81046807	114946357	38315452.33
3	In percent	65.9%	178%	96.2%		102%

***Source**: Own computation from financial statements, 2015*

16.Respondents rating on the loan repayment during the study period.

Duration of repayment period	Frequency	Percent
It is quite sufficient	162	41.6
It is too short	170	43.7
It is too long	57	14.7
Total	389	100.0

Source: Developed by the researcher, 2015

The following Table10 shows OCSSCOs interest rate is different from one product and services to others. For instance when we see rural group based, food security loan and credit life insurance interest is increasing from year to year. This implies the MFI interest rate is shows increase. This means the company is giving attention for this sector. The other products and services like urban group based, MSE and general purpose loan interest rate is shows in 2005 and 2006 the same level and in 2007 becomes increasing. This implies the regional government and MFIs give great attention and to motivate to whom participating on the different business fields of Product and service. But compulsory (group and center saving) and voluntary shows flat, means there is no change from the year 2005-2007. In general the MFIs in the year 2007increasing its interest rate in all fields of products and services except compulsory and voluntary saving.

Table: 10.General information OCSSCOs interest rate.

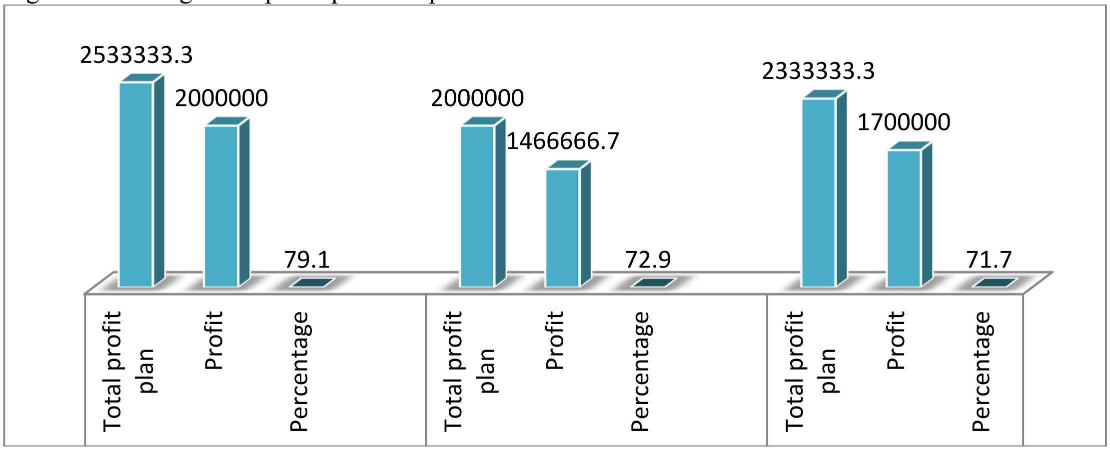
Product and Services	**2005E.C**	**2006E.C**	**2007E.C**	**Average**
Rural Group Based	13%	15%	17%	15%
Urban Group Based	10%	10%	17%	12.3%
Micro and Small Enterprise (MSE)	10%	10%	13%	11%
General Purpose Loan	10%	10%	17%	12.3%
Housing Loan	10%	10%	17%	12.3%
Food Security Loan	13%	15%	17%	12.3%
Compulsory (Group & Center Saving)	5%	5%	5%	5%
Voluntary	5%	5%	5%	5%
Credit Life Insurance	1%	2%	3%	2%

***Source:** OCSSCOs ending, 2015 report.*

Profitability and sustainability ratios reflect the microfinance institutions' ability to continue operating and grow in the future. Experts' perception on profitability of their MFIs was assessed. The result obtained from the survey respondents showed that their MFIs have been making a positive profit as compared to their pervious assessment. About 64.3 percent of the responds perceive that they was an increase in the size of profit while only

10.7 percent respondents' perceive that there was a decreasing trend on the profit. Similarly, about 17.9 % respondents were not sure amount the profitability of their organization. Regardless of their nonprofit or for profit status; donors and investors alike look to fund sustainable institutions. The above figure is show the three microfinance institutions profit is Ginnir 79.1%, Agarefa 72.9% and Sinana 71.9% branch is achieved their profit plan in the above percentage. This indicates there is average profit in the three MFIs. But from the three branches Ginnir branch is more achieved its plan in to practice than other two branches.

Figure: 4. Average total profit plan and profit of MFIs from 2005-2007



Source: *From zonal MF office, 2015*

*R*espondents were asked whether regulatory constraints were affecting financial and operating performance. About 46.4 % respondents replied that legal constraints have affected MFIs performance while 53.6 % of respondents were not agreed with this idea. More than half respondents (60.7%) agree absence of training affecting their financial and operating performance MFIs while 39.3% of respondents were not agreed. In other hand, majority of respondents (67.9%) agree with taken training on how they improve their financial and operational performance of MFIs while 32.1 % respondents were not agree. In other case, the above table shows that poor customer handling and relationship was the other factors that affect the FOP of MFIs. In this case majority of respondents (85.7%) are agreeing that they have got training on the customer handling while 14.3% respondents were not agree.

Table: 11. Factors that affecting the MFIs financial and operational performance.

Response Variables	Response in %	
	Yes	No
1. Regulatory constraints affecting your financial and operating performance?	46.4	53.6
2. Training related issues affecting your financial and operating performance?	39.3	60.7
3. Gender has an impact on your financial and operating performance?	7.1	92.9
4. Have you taken any training on how to improve your financial performance?	67.9	32.1
5. Have you taken any training on customer handling and keeping customers satisfied?	85.7	14.3

Source: *Developed by the researcher, 2015*

Factors affecting FOP were also categorized under five sub section: This include: the religious factors, technological factors, socio-economic factors, cultural factors and political factors. Each of external factors on the above table is described in detail on above table. Religious factor was the most important factor affecting the operation of MFIs. According to the Zonal admin office, Muslim religion is found dominate in the study area which may have its own impact on the FOP of the MFIs. This is because of the fact that the Muslim religion prohibits the interest earned from the money they deposited in the MFIs. The result obtained from the survey confirms almost similar result. From above table 4.17(60.7 %) of the respondents agreed that with the statement the religious factors were one of the main factors influencing the performances of their MFIs.

The second most important factor affecting the FOP of the MFIs was technological factor. As it can be seen from the table 25 above, access to the technology affects the performances of MFIs.

Information obtained from the key informants (people who have adequate information on the study issue) showed that lack of access to online banking system has constrained their performances. The survey result also reveals the same finding. The result obtained from the respondent showed that 53.6% of the respondents agree with the statements that technological factor affects the performances of the MFIs. Besides, the result of observation shows that majority of MFIs were affected by external related problem such as technological related problems i.e. the MFIs operators are didn't have the opportunity to get modernized technology at the given study area which made them unsuccessful to operate their day to day operational activities.

Socio- economic factors were other external factors that affect the performances of MFIs in Ginnir, Agarfa and Sinana OCSSCO branch offices. The response obtained from the respondents indicated that the majority (75%) of the respondents believe that their socio- economic factors such as the local people income and their saving capacity, family size and the awareness that they have about saving important is affect the performances of MFIs. Cultural and political factor also affects the performances of MFIs in the study area. For example, cultural and political factors influence the FOP of the MFIs by the same values of 50%. This shows that half of the respondents of the three MFIs are agree that their FOP of MFIs are not seriously influenced by political related factors .With the same token, cultural factor is also not highly affecting the FOP of MFIs as compared with the others factors.

Table: 11. Factor that affect the performance of MFIs

Variables		Likert Scale					
		Strongly Disagree	Disagree	undecided	Agree	Strongly Agree	Total
1.Religious factors	Percent	7.1	21.4	10.7	28.6	32.1	100
	Frequency	2	6	3	8	9	28
2.Technological factors	Percent	3.6	25.0	17.9	14.3	39.3	100
	Frequency	1	7	5	4	11	28
3.Socio- economic factors	Percent	3.6	14.3	7.1	32.1	42.9	100
	Frequency	4	6	4	7	7	28
4.Cultural factor	Percent	14.3	21.4	14.3	25.0	25.0	100
	Frequency	4	7	5	4	8	28
5.Political legal factor	Percent	32.1	10.7	7.1	25.0	25.0	100
	Frequency	9	3	2	7	7	28

Source: *Developed by the researcher, 2015*

Conclusions

The researcher concludes the following points based on the study findings. Loan size is the main financial attribute that gives more value to microfinance clients to determine borrowing decision. However, company's loan size is small to finance clients business both in rural and urban areas in Bale Zone. Indeed, no revision has been made to adjust the changing market price since company's establishment. Access to repeat loan, accessibility of branch staff and friendly service were also additional considerations during loan disbursement. Clients were not satisfied with loan follow up procedures and practice of OCSSCO. Successive loan after saving, easy saving withdrawal service, and security of client deposits were found to be the main saving product attributes that savers value more in making a decision to save or not. However, OCSSCO is performing less in delivering these attributes as desired. The company set better interest rate relative to other financial institutions like conventional banks to potential savers to mobilize more saving as a means to improve its portfolio quality. However, lengthy saving withdrawal, and poor physical facilities of branch offices are the main reasons for clients feelings of insecurity for their deposit and are obstacles observed to mobilize saving from target clients.

Based on the result the OCSSCO should develop and put in place clear staff development strategy such as, carrier structure with attractive pay scheme and staff training policy. OCSSCO should also able to consider introducing performance related incentive system and packages of benefits based on their financial capability. OCSSCO should continuously revise its loan size with changing market price so as to finance its urban and rural clients business. Since, both under and over finance lead to clients default. Alternative methodology other than group solidarity loan for loan disbursement must be designed for rural and urban clients at individual level. OCSSCO should shorten client saving withdrawal procedure so as encourage prospective savers in the company. To this end, fulfilling the human resource requirements at each branch level and making reserve fund available at branch office and avoiding issuing cherub for withdrawal are important measures to avoid this problem. OCSSCO should also improve all physical facilities of its branch by using conventional banks as a benchmark to attract more savers. The company should also improve its internal control system through advanced management information system.

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