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Analysis of Microfinance Institutions Performance: The Case of Jimma Town MFIs

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Abstract
This research assessed the performance of microfinance institutions in case of Jimma town considering; outreach (breadth of outreach) and client poverty level (depth of outreach), loan repayment (collection performance or portfolio quality), Efficiency and Financial sustainability (profitability), that determine the performance of financial institutions in terms outreach and its financial sustainability. The objective of this study is to examine the overall financial and operational performances of the Oromia Credit and Saving Share Company (OCSSCO), Eshet Microfinance Institution (EMF.S.C) and Harbu Microfinance Institutions (HMF.S.C) for the recent five years (2012-2017). The paper is used both primary and secondary data sources which were analyzed using qualitative and quantitative methods applying a descriptive analysis. Semi-structured interview was done with the key officials of the institution at the head office level, employees, and clients. Besides, a review of documents –both financial and non-financial also used for the investigation. The major findings of the study indicate that three major selected MFIs are progressing in terms of its breadth and depth of outreach. From the financial sustainability point of view, those MFIs have been gone up the ladder of sustainability measures over those five consecutive years. The institution also manages its loan portfolio as shown by the ratio of portfolio at risk (PAR) which is greater than 30 days that declined throughout the years. Since the institution spends least costs in its operating and administrative expenses for serving and providing loan to a single client, the trend in this regard showed that the three major selected MFIs is cost efficient.
Keywords: Micro Finance Institution, Sustainability

Declaration
We the authors declare that this paper is original and neither the manuscript nor one with substantially similar content under our authorship has been published or is being considered for publications. Additionally we are willing to give the first publication right to the publisher if the article is reviewed and accepted for publication.

1. Introduction

Poverty is a common problem of almost all developing countries. As a result their main and immediate objective is to strive to break the vicious cycle of poverty and to reduce the magnitude and extent of poverty. In this regard, the microfinance institutions recently gain more and more acceptance. Currently, these institutions play a very vital role in global poverty reduction debates. Microfinance could be a powerful strategy or instrument among several others for alleviating poverty in Ethiopia.

Ethiopia is one of the poorest countries in the world characterized by low per capita income and highest population pressure. The prevalence of poverty has been a common phenomenon in the Ethiopian society. Although the agricultural sector which is the mainstay of Ethiopian economy, is inadequate to feed the growing population. The 1997 world development report of the World Bank put Ethiopia second from the last comparing it with 133 countries of the world based on per capita income, which is 100%. Nearly 47% the rural populations are living below the poverty line compare to 33% in the urban areas (RUFRP, 2001).

Consequently, few recent ideas have generated as much hope for alleviating poverty in low-income countries as the idea of microfinance. Microfinance promised both combating poverty and developing the institutional capacity of financial systems through finding ways to cost effectively lending money to poor households and it exploits new contractual structures organizational forms. This reduces the riskiness and costs of making small uncollateralized loans also demonstrate that even poor households can save in substantial qualities (Morduch, 2000).

Therefore, microfinance institutions were as one of the most efficient instrument to promote economic development and to fight poverty in poor countries. Numerous micro finance institutions (MFIS) all over the world have proven that financial services offered on sustainable cases with high outreach. Around the world microfinance, institutions are increasing seen as the new jobs creator (41-Bagdacti and Brunt up, 2005).Similarly by considering the importance of MFIS, the government of Ethiopia recognized and supported money innovative microfinance operation. Then new microfinance technologies have been developing in Ethiopia since past decade that has lowered the cost of lending to entrepreneur and households with limited means to alleviate the

deep-rooted poverty. This improved income and consumption level of the majority. The microfinance institution current operated in Jimma town have investigated in this study.

2. Statement of the problem

In many of developing countries microfinance institutions accepted rightfully as the most important means in alleviating poverty and improving the standard of the poor. the study further note that, the sustainability of MFIs and outreach are being hindered by inadequate savings mobilization, huge operating costs, and lack of access to credit services. The prevailing operation of the formal or conventional financial institutions in many low-income countries such as Ethiopia is inefficient in providing sustainable credit facilities to the poor. The majority of the poor access financial services through informal channels, moneylenders, Iqub, Iddir, friends, relatives, traders, etc. (Wolday, 2002).

Duressa (2009) stated that majority of the MFIs in Ethiopia are not yet financially and operationally sustainable, especially he concluded that MFIs owned by government are better in their performance than MFIs funded by NGOs in terms of their financial and operational sustainability. In terms of outreach, NGO supported Ethiopian MFIs are limited to the project areas where they undertake their development activities. Poor farmers lack access to financial markets, Lack of rural microfinance institutions, which deliver financial services to the poor, is one of the constraints on production in many developing countries. In the Ethiopian context, microfinance institutions have been established and operating with the ultimate goal of poverty reduction (Pius, 2005).

Recognizing this, the government of Ethiopia encourages these institutions by giving legal entities and facilitating environment to ensure their sustainability and outreach performance continuously. Despite their contributions in addressing the problem of the poor and implementing their activities, they may face difficulties, which may hinder their performance so it may hinder the poverty alleviating activities of the poor.

This study attempted to deal with that whether the specific problems of Microfinance institutions (MIFs) done previous study on Ethiopia case are really the problems of Microfinance institutions (MIFs) in case of Jimma town. To what extent the problem faced and assessed other factors that have not taken consideration in the past the study such as production and market places problem, cooperative problem, have going to been assessed.

The subject of this study, those selected MFIs, were still accepting funds from donor thus, the study aims to assess the financial and operating performance of the institution by looking at the five performance indicator measures used (Outreach(breadth and depth),Financial Sustainability, Portfolio Quality and Efficiency). Therefore, all the above-discussed problems along with the gap in the literature need to conduct extensive research regarding MFIs. Those selected MFIs have reached the self-sufficiency or maturity level indicated by CGAP. Henceforth, the researcher believes that there is no complete knowledge of the full picture in a comprehensive manner that indicates of the strengths and weaknesses as well as the challenges of the operations of such institutions so as to suggest improvements in the future. This, accordingly, has raised a need to undertake a study on the case institution..

3. Objectives of study

3.1. General objective

The main purpose of this paper is to assess the financial and operational performances of the Oromia Credit and Saving Share Company (OCSSCO), Eshet Microfinance Institution (EMF.S.C) and Harbu Microfinance Institutions (HMF.S.C) for the study period (2012-2017).

3.2 Specific objectives

The specific objectives of the study where

- ✓ Assess the performances of the Institution over the study period. 2012-2016
- ✓ Evaluate the financial and operational sustainability of the MFI.
- ✓ Identify challenges faced by microfinance institutions not to operate efficiently.

4. Review of Related literatures

4.1. Definition and conceptual frame work

Definitions

What is Microfinance Institutions?

Microfinance is the provision of financial serves to the poor people with very small business or business projects (Otero, 1999 cited in Mary's, 2006). Only a small fraction of the world population has access to financial instruments, because commercial banks consider the poor people as unable due to their lack of collateral and information asymmetries.

The definition of Microfinance institutions proposed by some authors and organizations are seemingly

different from one another. However the essence of the definition is usually the same in which microfinance refer to the provision of financial services primarily savings and credit to the poor and low income households that don't have access to commercial banks (Arsyad, 2005). Léger wood (1999 p. 1) defines it as the provision of financial services (generally saving and credit) to low income clients. Robinson (2001 p. 9) defines it as small scale financial services primarily credit and saving provided to people who farm (fish or herd), who operate small enterprises (microenterprises), who provide services; who work for wage and commission; who gain income from renting out small amount of land, vehicles, draft animals (machinery tools) and where goods are produced, recycled, and repaired.

The 21st century microfinance system emerged from a group of poor people in Bangladesh in a form of a small microcredit. It started in 1970s with ***Dr Muhammad Yunas*** being the brain behind it. He gave money to start a small-scale business with 27 US dollars. They started with the making of Bamboo chairs. With the small amount he gave out to women, he understood the women could survive taking care of their families and themselves. In 1980s he started the Grameen Bank. This bank gave out loans of about 300 US dollars. The money was aimed to helping the poor to be able to sustain themselves but the interest rate was as high as about 98%. Today the bank recounts a success story of what they did in the 1980s. The Grameen banking system of alleviating people against poverty has been a model to many other countries such as Nepal, India, USA and Norway. According to the statistics produced by World Bank (2005), about 7000 microfinance institutions exist, serving about 16 million inhabitants in the world.

4.2. Conceptual Framework

Poverty is the major problem in most developing economies. In these economies, it argued that among others, absence of access to credit presumed to be the cause for the failure of the poor to come out of poverty. Meeting the gap between demand and supply of credit in the formal financial institutions frontier has been challenging (Vonpischke, 1991). Lending to the poor involves high transaction cost and risks associated with information asymmetries and moral hazards (Stieglitz and Weiss, 1981).

Nevertheless, in several developing economies governments have intervened through introduction micro-finance institutions to minimize the gap and then allow the poor to access credits. There are different arguments concerning how to evaluate the performance of micro-finance institutions. Meyer (2002), citing from Zellers indicated that there is what called "critical micro finance triangle" that we need to look at to evaluate micro finance institutions based on their objective. Here the concern of the triangle represents outreach to poor financial sustainability and well fare impact (IBID).

Outreach at glance means the number of clients served, but Meyer (2002) noted that outreach is multidimensional concept. In order to measure outreach we need to look in to different dimensions. The first is simply the number of persons now served, that previously denied access to formal financial services usually these persons will be the poor because they con not provide the collateral required for accessing formal loans, are perceived as being too risky to serve and impose high transaction costs on financial instructions. As result of the small size of their financial activities and transaction, women often face greater problems than men in accessing financial service. Therefore, number of women served is measure as another criterion. Although difficult to measure depth of poverty is concern because the poorest of the poor face the greatest access problem. Some measure of depth of outreach needed to evaluate how well MFIS reach the very poor (IBID).

Finally the variety of financial services provided is the criterion because it has been shown that the poor demand and their welfare will be improved if efficient and secure savings, insurance remittance transfer and other services are provided in addition to the loans that the predominant concern of policy makers (Navajas et al; 2000).

4.3. Performance Measurements in Microfinance:

The achievement of MFIs must examine through the lenses of standard industry performance metrics over a series of variables: Outreach (breadth and depth), financial structure, financial performance, efficiency and productivity, and portfolio quality (Lafourcade, et.al, Apr. 2005, p. 6). The performance of Microfinance institution is also best evaluated in light of the institution‘s context and stage of development. Note where the MFI‘s key strategic moves may have adverse short-term financial consequences but positive long-term effects. MFIs achievement can evaluate in terms of social performance and financial performance.

4.3.1 Definition of variable

All the above variables mentioned for measuring microfinance institutions performance in terms outreach and financial sustainability.

Those are the core indicators of recommend in good practice guidelines for funders of micro finance Institutions. The performance of Microfinance institution is also best evaluated in light of the institution's context and stage of development note where the MFI's key strategic moves may have adverse short-term financial consequences but positive long-term effects. MFIs' achievement evaluated in terms of social

performance and financial performance. Two of the indicators breadth of outreach and client poverty level (depth of outreach) captures social dimensions of performance (Lafourcade, et.al, April 2005, p. 6). In general, indicators of outreach include:

- The value and number of loans and savings accounts;
- Types of financial services offered;
- Number of branches established;
- Percentage of target population served;
- Annual growth rate of assets, and participation of women

All thriving microfinance institutions did well in at least two of these areas (CGAP, 2003). Furthermore, the social performance of MFIs measured in terms of changes in the social and economic lives of clients and their households.

Portfolio quality, financial sustainability and efficiency are the three indicators of financial performance. MFIs earn financial revenue from loans and other financial services in the form of interest fees, penalties, and commissions. Financial revenue also includes income from other financial assets, such as investment income. Micro finance Institutions financial activities also generate various expenses, from general operating expenses and the cost of borrowing for provisioning to the potential loss from defaulted loans. Profitable institutions earn a positive net income (i. e. operating income exceeds total expenses). (CGAP, 2009)

- Average portfolio outstanding
- Liquidity ratio
- Delinquency and loan ageing reports
- Ratio of losses to average portfolio outstanding

1. Outreach (breadth of outreach) – Expanding the number of clients being served is an ultimate goal of almost all microfinance interventions. However, rapid expansion sometimes proves to be unsustainable, especially during an MFI's early years when it needs to design its products and build its systems. It has very seldom been useful for funders to pressure MFIs for rapid expansion. The best measurement of outreach is straight forward *:(CGAP, 2009) The number of clients or accounts that are active at a given point in time*

2. Client poverty level (depth of outreach) - Average Outstanding Balance is roughly related to client poverty, because better-off clients tend to be uninterested in smaller loans. But the correlation between loan balances and poverty is very far from precise. Low loan sizes do not guarantee a poor clientele. Likewise, growth in average loan size does not necessarily mean that a MFI is suffering "mission drift." Asan MFI matures and growth slows, a lower percentage of its clients are first-time borrowers, and average loan sizes will rise even if there has been no shift in the market it is serving.

Funders who want to reach very poor clients should usually look for MFIs that are already committed to a low-end clientele, rather than trying to encourage higher-end MFIs to change their market (CGAP, 2009).
Many not all, microfinance projects expected to reach poor clients. There are various techniques for measuring client poverty levels, some quite expensive and others simpler, but as yet there is no widespread agreement on any one of them. If the project does not use a more sophisticated indicator, it should at a minimum report the following rough proxy for the poverty level of loan or savings clients at a point in time:

$$\text{Avg. Outstanding Balance} = \frac{\text{Gross amount of loans or savings outstanding}}{\text{Number of active clients or accounts}}$$

3. Loan repayment/collection performance (portfolio quality)

Reporting of loan collection is a minefield. Some indicators cover-up rather than clarify the true situation. Moreover, terminology and calculation methods are not always consistent. Therefore, whenever any measure of loan repayment, delinquency, default, or loss is reported, the numerator and denominator of the ratio should be explained precisely. MFIs' self-reported collection performance often understates the extent of problems, usually because of information system weaknesses rather than intent to deceive. Collection reporting should be regarded as reliable only if it verified by a competent independent party (CGAP, 2009).

The standard international measure of portfolio quality in banking is Portfolio at Risk (PAR) beyond a specified number of days:

$$\text{PAR (x days)} = \frac{\text{Outstanding principal balance of all loans past due more than x days}}{\text{Outstanding principal balance of all loans}}$$

The number of days (x) used for this measurement varies. In microfinance, 30 days is a common breakpoint. If the repayment schedule is other than monthly, then one repayment period (week, fortnight, and quarter) could be use as an alternative.

Many young or unsophisticated MFIs do not yet have loan tracking systems strong enough to produce a PAR figure. Most of these, however, should be able to calculate Loans at Risk (LAR), a simpler indicator that counts the number of loans instead of their amounts. As long as repayment is roughly the same for large loans and small loans, LAR will not differ much from PAR.

LAR(x days) = <u>number of loans more than x days late</u>

Total number of outstanding loans

When an MFI "writes off" a loan, that loan disappears from the MFI's books and therefore from the PAR or LAR. Thus, it is useful when reporting these measures to include a description of the MFI's write-off policy. (For instance, "the MFI doesn't write off loans," or "the MFI writes off loan amounts that remain unpaid more than 6 months after the final loan payment was originally due."

4. Efficiency: - The most commonly used indicator of efficiency expresses non-financial expenses as a percentage of the gross loan portfolio. Efficient institutions minimize costs of delivering services. The efficiency of a MFI can be calculated in various ways; it may be measured by costs per borrower and costs per saver as indicators of efficiency.

Productivity often measured in terms of borrower per staff member. Productivity is a combination of outreach and efficiency. Productive MFIs maximize services with minimal resources, including staff and funds. In general the specific indicators of the efficiency and productivity of MFIs are (Lafourcade, et.al, April 2005, p. 6):

- Total costs per average loan
- Revenues per average loan
- Clients per loan officer/staff person
- Staff expense as a percentage of average assets
- Net interest margin
- Unit cost ratio
- Cost per currency unit lent

Whether annual volume of clients is increasing and whether costs are decreasing per loan.

Operating Expense Ratio =Personnel and administrative expense
Period-average gross loan portfolio

The Operating Expense Ratio is the most widely used indicator of efficiency, but its substantial drawback is that it will make an MFI making small loans look worse than an MFI making large loans, even if both are efficiently managed. Thus, a preferable alternative is a ratio that is based on clients served, not amounts loaned.

5. Financial Sustainability (Profitability):- In banks and other commercial institutions, the commonest measures of profitability are Return on Equity (ROE), which measures the returns produced for the owners, and Return on Assets (ROA), which reflects that organization's ability to use its assets productively.

A credit program or institution is self-sustaining when income exceeds expenditures (including the opportunity costs of equity). When an institution providing credit receives a subsidy, it may be profitable but unable to sustain that profitability (CGAP, 2003).

Subsidies to credit institutions can take several forms:

- below-market interest rates;
- losses absorbed by the state instead of the institution;
- reimbursements of operating costs;
- Exemptions from reserve requirements (forced investments).

ROE = After-tax profits
Starting (or period-average) equity

ROA = After-tax profits
Starting (or period-average) assets

These are appropriate indicators for unsubsidized institutions. But donor interventions more typically deal with institutions that receive substantial subsidies, most often in the form of grants or loans at below-market interest rates. In such cases, the critical question is whether the institution will be able to maintain itself and grow when continuing subsidies are no longer available. To determine this, normal financial information must be "adjusted" to reflect the impact of the present subsidies. Three subsidy-adjusted indicators are in common use: Financial Self-sufficiency (FSS), Adjusted Return on Assets (AROA), and the Subsidy Dependence Index (SDI).These measures are more complex than the indicators discussed previously, and there are slight variations in the ways of calculating each of them.

According to AEMFI (2007), operational self-sustainability (OSS) takes into account the extent that financial revenue covers financial expenses, impairment losses on loans and operating expenses without performing adjustments for non-lending activities or other revenue like donation/grant and government support.

Operational self-sustainability (OSS) =Financial revenue
(Financial expense +impairment losses on loans +operating expenses)

According to Meyer (2002:4), measuring financial self-sustainability of MFIs demands that maintain better financial accounts and follow accepted accounting practices that give full clarity for revenue, expenses, loan recovery, and potential losses.

4.4. Empirical Evidence

Different studies in different disciplines used different approaches to assess impact of MFIS (**Berhanu, 1999**). From his study of micro finance credit and poverty, alleviation in Ethiopia identified that more than 70% of the respondents under his study reported the positive contribution towards employment creation, income generation improved access to health and educational facilities as well as house hold nutrition. (**Tsehoy & Mengistu, 2002**) conclude that the credit and saving institutions intervention among poor women in Ethiopia has made some positive effects that made a difference on the socio-economic empowerment of women clients (Tsehoy & Mengistu, 2002). RUFRP (2001), show that the sustainability and loan recovery depends on weather conditions, which in turn affect the level of the income of the borrower.

Many studies conducted on the issue related to microfinance institutions performance, challenges their impact on the economic and social condition of the rural poor. The study conducted by Ebisa et al., (2012), shows that the mean amount of loans extended by 30 microfinance institutions in the country is 2.2938, whereas the mean borrowing customers equal an amount of 8.2434. As it indicated in this study, the R square value is 0.913 implying that 91.3% of the variations amount of loans extended by 30 microfinance institutions in the country explained by the number of borrowing clients. On the other hand, the Pearson correlation indicates strong positive linear relationships between number of borrowing clients and amount of loans extended. The total number of active borrowing clients of the microfinance institutions in Ethiopia reached over 2.4 million customers in 2011 whereas the total credit extended by all microfinance institutions amounted to Birr 6.9 bill. Of the total credit granted, the share of the three largest Microfinance institutions is Birr 5.1 bill. The market shares based on the number of borrowing clients are 28.1, 16.1 and 20.4% for Amhara Credit and Saving Inst (ACSI), Dedebit Credit and Savings Inst (DECSI) and Oromia Credit and Savings (OCSSCO), respectively.

A study by **Morduch (2000**) indicates that less than 1% of MFI are sustainable and no more than 5% will ever be. Though this statement was issued with regard to NGOs and donor- funded MFIs, it has created awareness on the challenges facing the industry in general.

A survey by **Robert Cull (2007)** and others on the performance of leading MFIs in 49 countries finds interesting results. It founds over half of surveyed MFIs are profitable after making adjustment of subsides. It also identified no evidence of tradeoff between being profitable and reaching the poor.

Mohammed (2015) is examined the challenges facing microfinance institutions in poverty eradication, as stated that the microfinance institutions has a positive impact on alleviation of poverty among poor people. On the other hand, major challenges that face microfinance institutions are default risk inherited from borrowers, inadequate donor funding and lack of understanding of the definition and concept of microfinance by the client, communication gap and improper regulations by the government etc.

Research made by **Manos and Yaron (2009**) on the major issues in evaluating the performance of Microfinance institutions; their finding that there is a trade-off between outreach and sustainability in the short term. The researchers' analysis based on Production Possibility Frontier (PPF). As stated by the investigators' results, in the short term whenever the MFIs are on the production frontier there is desirably a trade-off between improving financial sustainability and expanding outreach. In contrast, in the long term it is likely to increase both outreach and financial sustainability by using scale of economies, advancing operational methods, and starting innovations.

For the Ethiopian case, there are few studies undertaken in relation to Microfinance Institutions. However, the objectives addressed in these previous studies are different, insuring the value added of this study.

Lakew (1998) examines POCSSBO's micro financing program contribution to poverty reduction. He found that after the credit program, employment opportunities for the beneficiaries have created. He also noted that the credit program of POCSSBO had positive effect on income and saving of the clients. In addition, He stated that medical, education and nutrition access of the clients had improved.

Similarly, **Aklilu (2002**) reviews the importance of micro finance institutions in developing economies based on countries' experiences. In the review, she suggested for promotion of the existing well-developed institution "Iddir" to facilitate growth of formal MFIs.

Duressa (2009) stated that majority of the MFIs in Ethiopia are not yet financially and operationally sustainable, especially he concluded that MFIs owned by government are better in their performance than MIFs funded by NGOs in terms of their financial and operational sustainability. In terms of outreach, NGO supported Ethiopian MFIs are limited to the project areas where they undertake their development activities, therefore; they have scattered and limited outreach. Chala and Bessie (2016) review Factors Affecting Performance of Microfinance Institution in Bale Zone, Oromia Region. They found that Loan size is the main financial attribute that gives more value to microfinance clients to determine borrowing decision.

5. Methodology

5.1. Background of the Study Area

Jimma is the largest urban center in southwestern Ethiopia. The town for the most part came in to its present

shape during the Italian Occupation. Jimma town covers a total area of 100.2 km.

Its population estimated to be 120,600with growth rate of 4.11% per annum. Commerce is the main economic activity in the town. Previously the towns have in to 21 kebele but currently it restructured in to 13 kebele. Many people are living in overcrowded residential areas with bad sanitation situation and lack of basic services like safe drinking water and sewerage. Currently three microfinance institutions are operating in Jimma town.

Harbu Microfinance Share Company established in November 2005, Eshetu Microfinance Share Company and Oromia Credit and Saving Share Company (OCSSCo) established in 2006. These institutions have the major objective of poverty alleviation through provision of productive credit to the poor.

5.2. Source and type of data

This research were conducted using primary data and secondary data, which collect from clients in Jimma town by using questionnaires and from the city's MIFs development strategy by identifying, reading, and analysis of the written materials that are related to the research problem under investigation. . The data, which is collected, considers those five core indicators offer basic tools to measure performance of MFIs (CGAP, 2009). Those are; outreach (breadth of outreach) and client poverty level (depth of outreach), loan repayment (collection performance or portfolio quality), Efficiency and Financial sustainability (profitability), that determine the performance of financial institutions in terms outreach and its financial sustainability.

5.3. Sampling Techniques and sample size

For the purpose of this study, the researchers used both probability and non-probability sampling techniques. For this research, the sampling frame is list of Microfinance Institutions operating in Jimma city, the list of employees working in these institutions and list of clients of the institutions.

There are three major MFIs in Jimma city, namely Harbu Microfinance Share Company, Eshetu Microfinance Share Company and Oromia Credit and Saving Share Company (OCSSCO), which were included in the sample. Researchers have decided to take 50% of the branches to get adequate data. As a result, in the case of Oromia Credit and Saving Share Company (OCSSCO), it has six sub-branches in Jimma town with the distribution of one branch for two and above sub-city. Because of their homogeneity in many aspects, the researchers took only three of the sub branches by using the simple random technique. This means from Oromia Microfinance, the Head Offices selected purposively, and three sub-branches selected randomly. In the case of Eshetu Microfinance Institution, there are three branches in Jimma city. Two of them were select by using the simple random method. Harbu Microfinance Institution Yebu branch does not have a sub branch in Jimma town. Therefore, Yebu branch Office was take and included in the sample.

There are about 198 employees in the selected three institutions, including the branch and sub branch workers. Out of these employees, 116 are operational workers who have direct linkage with the day-to-day activities of the institutions. Simple random sampling method employed to select the sample from this population. The researchers used purposive sampling (expert sampling) to include all managers in the sample because it believed managers of the institutions are the main sources of required information. Regarding the clients, there are about 34,379 clients in the selected institutions. In order to compare different factors found in different institutions, all the institutions are included in the sample. The researchers employed formula to calculate the minimum size out of 116-targeted workers in the institution. Israel (2009) found the following formula to determine the sample size, which is trust worthy when the population sizes were knew. By considering the homogeneity of the respondents and reduced the sample size, the researcher applied 7% precision level in the formula.

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

Where n=sample

N=population and

E= level of precision

n= 116/1+116 (0.072)

= 116/1+116(0.0049) =116/1.5684

= 74

Thus, the employees included in the survey questionnaire are 74.

The number of respondents taken from each institution is determined by considering the total number of employees in the institutions. Besides, three individuals (managers) are selected for interview purposively to support the purpose of this research.

Similarly, in order to decide the number of clients to be included in the sample, the researchers employed formula method. As a result, from Oromia Credit and Saving Share Company Microfinance branches, Menehariya branch, Jiren branch, and Hirmata branch were selected. The number of clients in these sub branches

is 6758, 4100, and 2900, respectively. From Eshetu Microfinance Institution, Yebu branch and Koffe branch is included in the sample. There are 7318 and 5000 clients in these institutions respectively. Harbu microfinance Institutions is the other institution from this Yebu main branch is included with the total client size of 8303.Totally, 34379 clients taken as a total population from the selected institutions.

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

n= 34379/1+34379 (0.072)

34379/1+34379 (0.0049) =34379/168.462 =**204**

Because of the calculation above, 204 clients are included in the sample. Due to availability of list of the clients from each institution, the researchers employed systematic sampling (proportional) technique to select 204 clients. Consequently, 82 from OCSSCO MFI, 73 from EMFI and 49 clients from HMFIs were select. As the case of employees 7%, precision level taken to determine the sample size of the clients.

5.4. Method of data analysis

The data have analyzed using the descriptive statistics, graphs and charts. In this study, descriptive is analysis chosen because of its simplicity and clarity to draw inferences. Averages, percentages, diagrams, charts and tables of microfinance institutions, the performance of microfinance institutions and challenges of the micro financing industry analyzed.

6. Findings and presentations

6.1. Trend Outreach Performance of those Microfinance Institutions from the year 2012-2017

Outreach is used for the effort by microfinance institutions to extend loans and financial services to an ever-wider clients (breadth of outreach) and particularly toward the poorest of the poor people (depth of outreach). Breadth of outreach is the provision of significant benefits to large numbers of a particular target individual or group and depth of outreach is the provision of significant benefits to particularly disadvantaged people or members of a broader target individual or group. According to Consultative Group to Assist the Poor (CGAP 2009) stated that the greatest measurement of outreach breadth is the number of active borrowers and the measurement of outreach depth (poverty level of client) is outstanding gross loan portfolio.

A. **Outreach (breadth of outreach):** This is the best measurement of breadth outreach and it is straightforward: *The number of clients or accounts that are active at a given point in time.*

Table 6:1 Trend of Breadth Outreach Indicators (2012-2017)

	No. Active clients in MFIs		
Name of MFIs	**OCSSCO**	**EMFIs**	**HMFIs**
Years of operation			
2012	9,016	10,638	1,998
2013	11,306	10,475	2,948
2014	11,306	14,154	3,707
2015	15,772	14,098	4,377
2016	17,359	10,541	5,877
2017	13,758	12,318	8,303
Average	**13,087**	**12,037**	**4,535**

Sources: Researcher's Own calculation from financial statements' of MFIs 2012 - 2017

As it seen from the table above the total, number of active clients in the selected MFIs has been increasing. For example, Oromia Credit and Saving Share Company (OCSSCO), the total number of active clients in 2012 was 9016, in 2017 this number rose to 13758, which shows a 47.42% growth compared to 2012.

Whereas, Eshetu Microfinance Institution (EMF.S.C) is total number of active clients in 2012 was 10,638, but in 2017, the number has reached 12,318. It has shown a 16.8% growth compared to the 2012.

In addition client outreach in, Harbu Microfinance Institutions (HMF.S.C), is total number of active clients in 2012 was 1998, but in 2017, the number has reached 8303. It has shown a 63.05% growth compared to the 2012. Client outreach in Harbu MFIs also reflected an increasing trend. Even though Harbu MF was established in a very recently when we compared with two of Microfinance Institutions eight years ago, when the former was established in mid 2004 and next year's begins formal operation in January 2005, it has registered a 19.98% growth in client outreach.

Generally, as breadth of outreach to clients all Microfinance Institutions are improving in performance but when we compare those three MFIs in case of capacity and duration of time Harbu Microfinance Institutions (HMF.S.C), has best performance because it was expanding to poor clients with low capacity and in short time.

B. Client Poverty Level (Depth of Outreach): There are various techniques for measuring client poverty levels report. Henceforth, the following rough proxy for the poverty level of loan or savings clients at a point in time.

One of the disadvantaged groups from economic empowerments point of view are women. The study found that even if credit access to women is still best indicators of the registered remarkable performance in this aspect.

I. Percentage of Female borrowers

Females was hardly served by traditional financial institutions because most of them in the developing world particularly in Ethiopia are less educated plus low income earners of the society. This is because they could not get collaterals that has used as initial capital by the conventional financial institutions and are unable to paying their debt as contrasted to males. On the other side, they contain half part of the population in Ethiopia outreach to women means outreach to poor in short (befakadu, 2007).

Table 6:2 Trend of Depth Outreach Indicators (2012-2017)

	percentage of woman borrowers		
	OCSSCO	**EMFIs**	**HMFIs**
Years operations			
2012	55%	74%	31%
2013	60%	96%	32%
2014	74%	77%	28%
2015	76%	76%	29%
2016	75%	76%	29%
2017	75%	77%	28%

Sources: Researcher's Own computation from financial statements' of MFIs- 2017

As indicated in figure below, the percent of women borrowers for Oromiya Credit and Saving Share Company (OCSSCO) and Eshet Microfinance Institution (EMF.S.C) were showing a remarkable progress from year to year, as we can observe from the figure below. However, percent of women borrowers for Harbu Microfinance Institutions (HMF.S.C) was showing a remarkable decrease from year to year, as we can observe from the figure below. All over the period of the study, the percentage of women borrowers of Oromia Credit and Saving Share Company (OCSSCO) and Eshet Microfinance Institution (EMF.S.C) were more than the percentage of women borrowers of the Harbu Microfinance Institutions (HMF.S.C). Therefore, the first two MFIs were performing well in terms of balancing the gender aspect of its clients compared to the last one. Besides, to this all over the years of the study, women are represented by far more than men are because high monitory and evaluation system for the two former MFIs and low the later one. One of the disadvantaged groups from economic empowerments point of view are women. The study found that even if credit access to women is still limited in the industry but OCSSCO & EMF.S.C had shown a remarkable progress in terms of emphasizing more number of women borrowers in order to balance the gender aspect of its clients and to support the disadvantaged group of the economy. So the Harbu Microfinance Institutions (HMF.S.C) is required to adjust its policy that increases the percent/the number of women borrowers like others MFIs. Since empowering women and serving, the active poor are the primary objectives of any microfinance institutions.

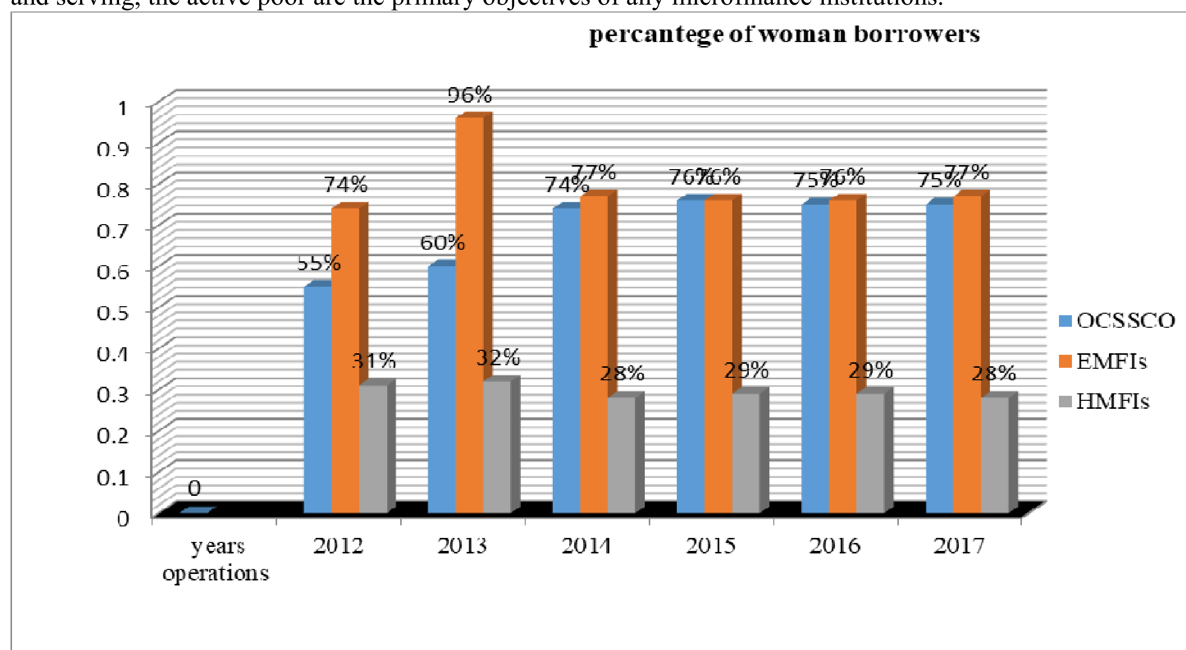

Figure 6:1- Breadth of Outreach Indicator: percentage woman borrowers

6.3. Trend Performance of Portfolio Quality of selected MFIs (Year 2012-2017)

The loan portfolio is the highest vital asset of microfinance institution. Loan portfolio quality, which is also refer to as loan repayment of microfinance, reviews how the microfinance institution measures, monitors, and manages its loan portfolio, together with delinquency and write-offs. Portfolio quality indicates the risk of loan delinquency and influences the future earnings and the microfinance institution's ability to extend outreach and serve current clients. This is the most making known of the five performance areas. A moneylender's ability to collect loans is essential for its success: if delinquency is not to maintain at very low levels, it can rapidly spin out of control. Moreover, loan collection has verified to be a powerful proxy for general management competence.

PAR (x days) = Outstanding principal balance of all loans past due more than x days/

Outstanding principal balance of all loans

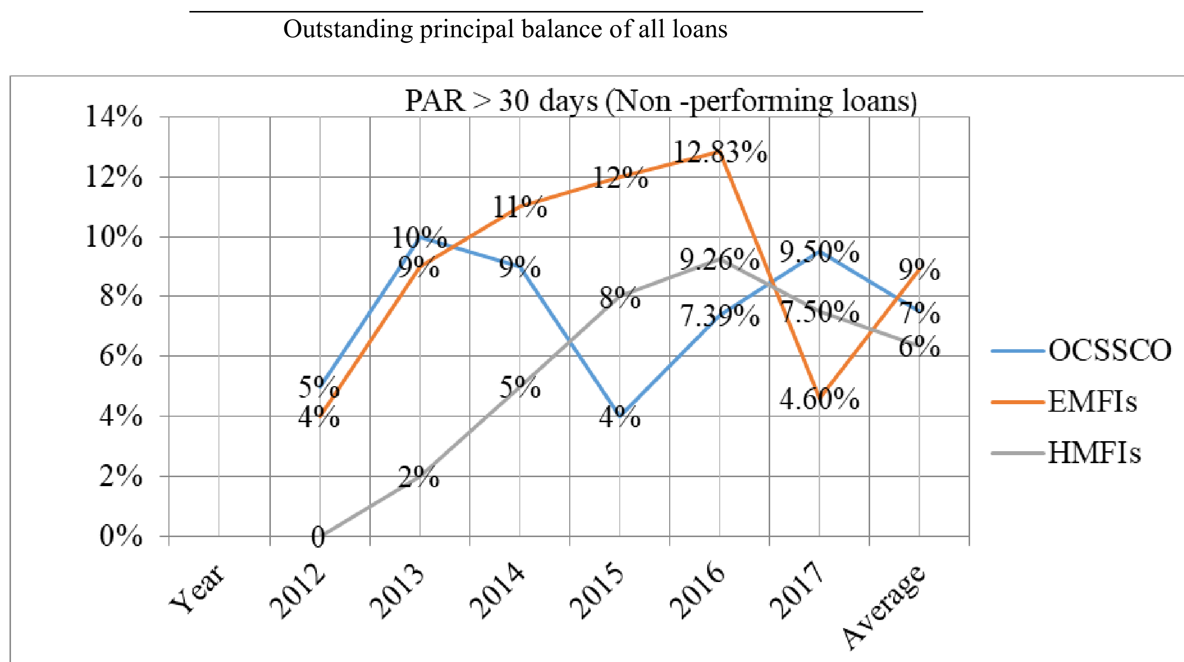

Figure 6:2 Trend of PAR> 30 Days ratio Indicator

The higher PAR shows low loan repayment rates, as sign of inefficient microfinance institution. The greater the PAR, the higher inefficient the microfinance will be and, so, the less financially sustainable of the microfinance institution. The National bank threshold indicated that < 5% of portfolio at risk has acceptable loan repayment rate. In addition to this, CGAP (2009), stated that as a rough rule of thumb when dealing with uncollateralized loans, PAR or LAR (30 days or 1 payment period) more than 10%, or ALR more than 5% must be minimize quickly or they will spin out of control. Decreasing PAR indicates a healthy loan portfolio. As indicated in the table above PAR > 30 Days increase as the numbers of clients increase this means when the No. of clients of OCSSCO and EMFIs, increases follow-up (monitoring and evaluation) decreases and in others way the PAR (non-performing loans) in increases were: unpaid loan due to death, bankruptcy, sickness and disappearance of clients.

The above result of PAR > 30 Days on average were 7%, 9% and 6% these reflects that OCSSCO, EMFIs, and HMFIs had accepted PAR > 30 Days throughout the year. This indicated that better follow-up activities made to the clients throughout the year because PAR or LAR more than 10% and 5% respectively dealing with uncollateralized loans.

6.2. Trend performance of Sustainability & Profitability of selected MFIs (Year 2012-2017)

In banks and other commercial institutions, the popular measures of profitability are Return on Equity (ROE), which measures the returns produced for the owners, and Return on Assets (ROA), which reflects that organization's ability to use its asset productively.

ROA = After-Tax Profits
Starting (or period-average) Equity

ROE = After-Tax Profits
Starting (or period-average) assets

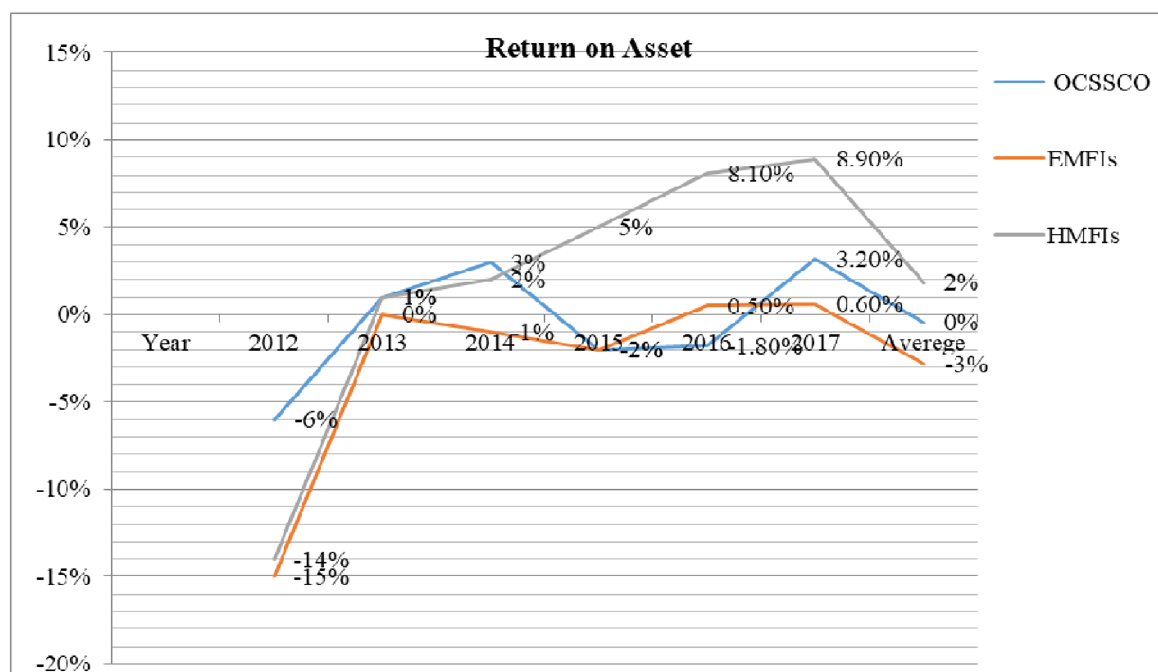

Figure 6:3.Profitability Indicator of ROA of selected MFIs (2012-2017)

Balance sheet percentages have usually based on the total assets (as 100%). These analyses were based on the statement of financial position and the profit and loss reports of the selected MFIs. For OCSSCO MFI, the total assets and the net worth at the end of 2017 increased compared to the previous year 2012, whereas the firm's total liabilities during the consecutive years showed decreasing pattern. The negative ROA ratios are because of the net loss suffered by the firm in 2015 and 2016 decreased from -2% to -1.8% it has covered totally in the next years. The increase in assets and net worth are attributed to the higher operating income gained by the firm and thus, the Return on Assets increased by small amount for the consecutive years 2012 - 2017 with the ratios of -6% and 3.20% for the return on Assets, respectively figure 6 above. Hence, from profitability point of view, the trend performance of OCSSCO MFI, in terms of ROA was successful greater than 0% (breakeven point) in 2017 years on average through the rates change considerably over the years and 0% means its expanding outreach to the poor clients without income losses.

The returns on assets (ROA) for EMFIs from (2012-2017) fiscal periods were -15%, 0%, -1%,-2%,0.50%, and 0.60% respectively in its first full year operation, EMFIs reported a return on assets ratio of -15% which is a high liability for operating expense during near to the newly established firm. As a result, it got losses for income in the consecutive years of 2014-2015 and required long time for maintained from this one. Finally, it reported on average a negative return on assets of -3%. According to the officials, the higher loss reported in 2012, 2014 and 2015, were did to the higher bad debt expense maintained by the firm and the additional expense incurred in connection with branch expansion. On the other hand, the returns on assets (ROA) for HMFIs for (20012-2017) fiscal periods were -14%, 1%, 2%, 5%, 8.10%, and 8.90%, respectively. The return on assets reported in 2012 these indicated that very low compared to the industry standard of 2% for growing MFIs. This low return on asset ratio is mainly due to the low level operating income reported by the firm. However, in 2016 and 2017 the return on assets ratio increased to 8.10% and 8.90% respectively together with the increase in net income. Thus, this tells us that the firm accomplished better performance ROA compared to the previous year.

Table 6:3 Trend Analysis ROE (2012- 2016)

	Return on equity		
	OCSSCO	EMFIs	HMFIs
Year			
2012	-6%	-18%	-22%
2013	-40%	0%	3%
2014	3%	-2%	9%
2015	-3%	-2%	18%
2016	-3.20%	0.70%	28.50%
2017	5.80%	1.00%	34.50%
Average	-7%	-3%	12%

Sources: Researcher's Own computation from financial statements' of MFIs- 2017

For OCSSCO the return on equity (ROE) measured based on its financial statements for the years (2012-2017). The results revealed -6%, -40%, 3%, -3%, -3.20%, and 5.80% in the consecutive years, respectively. The results for all years except (2014 and 2017) show a negative ratio on average (-7%) because of the increasing pattern of operating losses over the years in the 2017 which is (5.80%) the institutions performed better. The ratio for the consecutive years is far below what expected from a firm such as this. As many commercial financial institutions target a ROE ratio of about 15% to 25%, the results obtained for OCSSCO is -7% on average very far below the standard. When we look at the results of EMFIs again in Table 6.3. the ROE reported in (2012- 2017) were -18%, 0%, -2%, -2%, 0.70%, and 1%, respectively. As many commercial financial institutions target a ROE of about 15% to 25%, the results obtained for EMFIs is also very low. However, compared to the 2012 ratio (which is -18%), in 2017 (1.00%) the institution performed better. For Harbu MFI the results of ROE for (2012- 2017) consecutive years reflected a -22%, 3%, 9%, 18%, 28.50%, and 34.50%, respectively. For a MFI that began formal operation in 2005, the result reported during the same year is encouraging. However, the firm reported on average a positive ROE, which is 12%. The positive return on equity in on average as explained earlier was due to the lower expenses related to loan loss and branch expansion, as result it have small No. clients. Generally, in case of return on asset (ROA) and return on equity (ROE) as researcher was analyzed Harbu Microfinance Institutions (HMF.S.C), has best performance as compared to Oromiya Credit and Saving Share Company (OCSSCO) and Eshet Microfinance Institution (EMF.S.C) have low performance.

Table6:4 Operational Self-sufficiency (OSS) (2012-2017)

	Operational Self sufficiency		
	OCSSCO	EMFIs	HMFIs
Year			
2012	126%	83%	82%
2013	106%	102%	108%
2014	105%	116%	123%
2015	81%	62%	133%
2016	82%	85%	155%
2017	125%	99%	173%
Average	104%	91%	129%

Source: researcher's own computation from financial statements of MFIs

Operational self-sustainability (OSS) takes into account the extent that financial revenue covers financial expenses, impairment losses on loans and operating expenses without performing adjustments for non-lending activities or other revenue like donation/grant and government support. MFIs with OSS exceeding 1 (100%) rates is indicating of a long-run financial expenses (financially self-sufficient) and if the OSS is below 1 (100%), at that point the MFI has not still attained financial breakeven.

In reference to the above table 6.4, OCSSCO performed well in terms of operational self-sufficiency because on average it achieved more than the threshold level of 1(or 100%). The average operational self-sufficiency of in the consecutive years was 1.04 (or 104 %) that was above the breakeven point of 1 (100%). On the contrary, EMFIs was unable to attain operational self-sufficiency in the consecutive years of (2012-2017) which, was on average 0.91 (91%) is below the threshold level 1 (100%). This was under the breakeven point of 1 and then the result of OSS is below breakeven. This means EMFI was subsidize and donated by external parties in the year (2012-2017) because at that time it is highly dependent on liability to expanding its branch and outreach to clients. On the other hand, Harbu MFIs performed well in terms of operational self-sufficiency because on average it achieved more than the threshold level of 1(or 100%). The average operational self-sufficiency of in the consecutive years was 1.29 (or 129 %) that was above the breakeven point of 1 (100%). This indicated that Harbu MFIs has best performance when compared to the others two MFIs.

Generally, based on the above results from operating self-sustainability and profitability angle, it is found that OCSSCO and Harbu MFIs were goes up the ladder of sustainability and profitability measures during the study period, i.e., from year 2012-2017.

4. Trends in Efficiency and Productivity of Selected MFIs (2012-2017)

Efficiency and productivity indicators give an indication of how well an institution performs operationally. Productivity indicators reflect the amount of output per unit of input while efficiency indicators also take into account the cost of the inputs and/or the price of outputs. Since these indicators cannot easily manipulate, they are more readily comparable across institutions than profitability indicators such as Return on Equity and Return on Assets. On the other hand, productivity and efficiency measures are less comprehensive indicators of performance than those of profitability. The most commonly used indicator of efficiency expresses non-financial expense as a percentage of the gross loan portfolio.

Operating Expense Ratio= Personnel and Administrative Expense

Period –Average Gross Loan Portfolio

Personnel productivity ratio=Borrowers per staff member

$$\text{Personnel productivity ratio}=\frac{\text{Number of Active borrowers}}{\text{Number of personnel}}$$

Table 6:5 Trend in Efficiency and Productivity Ratio (2012-2017)

	Ratio of operating expense to loan		
	OCSSCO	**EMFIs**	**HMFIs**
Year			
2012	18%	26%	31%
2013	14%	18%	25%
2014	18%	17%	17%
2015	27%	5%	12%
2016	26.78%	18.93%	12.23%
2017	22.20%	15.70%	9.60%
Average	21%	17%	18%

Source: Researcher's own computation from financial statements of MFIs

An attempt can also made to evaluate the operating cost ratio of the selected MFIs by comparing their respective operating costs with the average value of loans outstanding. The results obtained can present for each of the MFIs as follows:

For OCSSCO MFIs the results showed 18% and 22.20% for 2012 and 2017 fiscal years respectively. This ratio measures the cost per unit of money lent. Thus, for OCSSCO MFIs this cost for (22.20% in 2017) per unit of money lent which is much more than the (18% in 2012) target set by the institution. However, the ratio increased up to (22.20% in 2017) in the consecutive years. Therefore, anyone can deduce from these compared to the previous year (2012), in 2017 OCSSCO MFI was inefficient in meeting its target.

We also obtain similar results if we go through the reports of EMFIs and HMFI. In that, the firm reported the decreased an operating cost ratio of (26% in 2012 and 15.70% in 2017) for EMFIs and (31% in 2012 and 9.60% in 2017) HMFIs respectively. Hence, it seems a bit efficient and productive compared to the OCSSCO, which was operating cost ratio still increased over time studied. Overall, from the results presented in the above paragraphs, one can easily infer that the financial efficiency ratios of the institutions are favorable since a declining ratio is positive.

Personnel Productivity Ratio

Table 6:6 Trends in Efficiency and Productivity Ratio (2012-2017)

	Personnel productivity ratio		
	OCSSCO	**EMFIs**	**HMFIs**
Year			
2012	347	426	250
2013	323	403	268
2014	323	544	337
2015	478	587	337
2016	511	390	280
2017	353	390	346
Average	**390**	**457**	**303**

Source: Researcher's own computation from financial statements

The last indicators personnel productivity ratios in the above table 6.6 is important ratios for any financial institution since personnel costs are mostly the highest operating expense.

The indicators calculated above measure the size of the caseload (the number of active clients) each a single staff serves loan officer takes in addition to how much borrowers. The larger the ratios indicate that better efficient for the institution.

The personal productivity ratio indicated that better efficient for the institution for example, the ratio of productivity OCSSCO in the year 2012 was 347 however, the year 2017 it is increased 353 on average 390. For EMFIs in the year, 2012 was 426 however, in the year 2017 it decreased to 390 because of withdrawals of employee related to salaries and others case, but on average 457, this indicates same how better efficient.

On the other hand, Harbu MFIs personal productivity ratio indicated that better efficient which, ratio of productivity in the year 2012 was 250 however, in the year 2017 it is increased to 346, on average 303. This all explained that the institution is operationally sustainable.

From the above analysis and discussion, it can be observe that all MFIs were more efficient on the prior years.

6.5. RESPONDENT'S PROFILE

The analysis based on the information obtained from 199 MFIs clients, 3 MFIs officials, from three micro finance institutions found in Jimma town, Oromiya Credit and Saving Share Company (OCSSCO), Eshetu Microfinance Institution (EMF.S.C) and Harbu Microfinance Institutions (HMF.S.C), respectively. The analysis also incorporated information obtained through an interview with the officials in the MFIs. The respondents involved in this study included clients, branch managers, assistant branch managers, and loan officers drawn from each of the three MFIs indicated above. Besides, to learn more about the sector the financial and operations reports of the institutions have intensely referred. Finally, out of the 204 questionnaires distributed to clients, 199 (or 98%) were collected. In addition, out of the 74 questionnaires distributed to the employee's of MFIs 73 (or 98%) were collected.

6.5.1. Loan Repayment Related Issues

Improving the repayment rate could also help to reduce the dependence on subsidies and help the MFI reach a better sustainability level. It is also argued that high repayment rates reflect the adequacy of MFI's services to clients' needs and restrict the cross subvention of the borrowers. Repayment performance also acts as an important positive signal when the MFI has to raise new funds. For all these reasons, higher repayment rates are largely associated with benefits for both the MFI and the borrower (Godquin, 2002). The clients' failure to repay their loans related to different factors. Table 6 below shows that 65.8% of clients are paying according to the repayment schedule, whereas the other 34.2% of the clients fail at least one time from paying the loan timely.

On the other hand, 27.6% of the respondents have a fear of paying their loans, according to the institution's program in the future because of different reasons. The rest (71.9%) of the clients are confident enough to repay the money until they finish the entire loan.

The reasons for those of the clients who failed to repay vary from client to client. The reason of 47% of unsuccessful clients is a personal problem like illness and different family cases. About 21.8% of them fail to repay the loan because of market condition of their business. The other 16% of the respondents connect their failure with the institutions. Lack of follow up from the institutions becomes the reason for the failure of 16% of the clients.

Table 6:7. Loan repayment according to the repayment schedule

Items	Alternatives	Frequency	Percent%
Have you paid your loan according to repayment schedule?	Yes	131	**65.8**
	No	68	**34.2**
	Total	**199**	**100.0**
What type of challenges have you faced to repay the loan?	The business faced lose	7	**12.7**
	The business is not working properly	12	**21.8**
	Because of personal reason	26	**47**
	Because the institution do not follow the repayment	9	**16**
	Because of other reason	1	**1.8**
	Total	**55**	**100**
Can you pay your loan according to the schedule in the future?	Yes	143	**71.9**
	No	55	**27.6**
	Total	**199**	**100.0**

Delay and failure of repayment is highly related to the performance of the institutions. The data above indicate the seriousness of the case. Though high percentages of the clients are paying back the loan, a significant percent of clients have failed from repayment due to different reasons. Godquin (2002) found out social ties among the group had a negative impact on the repayment; the age of the borrowing group had a significant negative impact on repayment rate; group homogeneity proved to have no significant impact on repayment performance in the whole sample. On the other hand, group homogeneity in terms of sex showed a positive impact, whereas homogeneity in terms of education showed a negative effect. Homogeneity in terms of age also showed both a negative and positive effect on the repayment performance. His study mainly focused on loan repayment of group borrowers.

6.5.2. Factors that Affect Loan Repayment from the Employee's Point of Views'

Successful repayment of the loan has a positive impact on the performance of MFIs. Clients of microfinance institutions sometimes fail from paying the loan accordingly. There can be different reasons for their failure. The employees of MFIs have expected to be near to their clients in different ways. They communicate with their clients at the beginning of the loan process, during repayment time and at the time of supervision. By considering this, the researcher asked some questions related with loan repayment and clients' reasons. The table below indicates the percentage of responses of the employees on this regard.

Table 6:8. Factors affecting repayment as per employees' perception

Factors	Frequency	Percent
Low financial capacity of clients	22	**29.7**
Weak loan collection system	4	**5.4**
Weak clients election system	20	**27.0**
Lack of willingness from clients to pay their loan	28	**37.8**
Total	**74**	**100.0**

Concerning the major factors, which affect loan repayment, table 6.8 shows that 37.8% of the respondents have chosen Lack of willingness from clients to pay their loan, these the major factor that affects loan repayment. 29.7 % of the employees agreed that, low financial capacity of clients is fore most factors for low repayment rate. Whereas 27% of the respondents blame client selection process for the weakness of loan repayment. Only the minor number of respondents selected weak loan collection system as a major factor.

6.5.3. Availability and Types of Training

Providing training to the clients helps to aware the clients on many issues such as in the proposed business, on the area of entrepreneurship, on the issue of saving and on other related issues to support and strengthen the capacity of the borrower both on the repayment of their loan and in their life. Table 6.9 below shows that, only 48 (24.1%) of the borrowers have training on different issues. The majority of the clients are out of any training. From the clients who have taken training, 48% they attended training on the issue of saving. Only 52% of the respondents have taken training on the proposed business.

Table 6:9. Clients who have taken training and get support

Items	Alternatives	Frequency	Percent %
Have you taken training?	Yes	48	**24.1**
	No	146	**73.4**
	Total	**197**	**99.0**
Which types of training did you get so far?	Training related with the new business	15	**31**
	Training related with entrepreneurship	10	**21**
	Training related with saving	23	**48**
	Total	**48**	**100%**
Did you get monitoring and support from MFI	Yes	112	**56.3**
	No	87	**43.7**
	Total	**199**	**100.0**

According to Chakra arty and Bass (2013), MFIs can adopt two strategies regarding their services. One in which the MFI follows its basic mission of solely providing financial services, and the other in which MFIs provide supplementary knowledge services in addition to financial services to borrowers. The first MFI strategy specifically focused on the past and present financial status of the borrower. That is, the purpose of the transaction between the MFI and borrowers is to provide borrowers who are determined creditworthy, with loans. These loans might have used to start microenterprises. The second strategy, which encourages entrepreneurship by additionally providing knowledge resources for borrowers, focuses not just on the past and present financial status of the borrower but also in the borrower's future entrepreneurial plans. MFIs that choose to provide impoverished borrowers with knowledge services in addition to financial services do so to equip these borrowers with the tools necessary to take the risks needed to create and grow microenterprises. In principle, most of MFIs agree with the second strategy, to give different types of training for their clients. Only 24% of the clients have received this service.

6.6. Challenges and opportunities of MFIS?

During the study period, the final questions that should be addresses were questions related expected challenges and opportunities for selected MFIs. Every business starts by undertaking the necessary preliminary study, which includes observing the opportunities in the market or industry. Likewise, the selected MFIs Jimma town, as

Microfinance in the country, has various favorable conditions- opportunities- for the attainment of its ultimate goals. Hence, the following are some of the identified by the management of the Institution the opportunities for the Institution both for its survival as well further advancement of achievements. In addition, there are also anticipated challenges that may face the industry in general the institution in particular. Hence, this section of the study presents first the opportunities followed by the challenges.

A) Opportunities: The detail opportunities, which, can discussed as follows.

1) Families are able to send their children to school and to cover health care expense for their family members. Very few clients are able to build assets and enhance income-earning capacity.

2) The selected MFIs Jimma town, are recognized as a very effective developing tool. This contributes to socio-economic status of targeted community especially women-oriented financing. This can relate with Women entrepreneur development program (WEDP May 25, 2017) the objective of the Women Entrepreneurship Development Project for Ethiopia is to increase the earnings and employment of Micro and Small Enterprise, or MSEs owned or partly owned by the participating female entrepreneurs in the targeted cities. This will be achieved by:

i) tailoring financial instruments to the needs of the participants and ensuring availability of finance; and

ii) Developing the entrepreneurial and technical skills of the target group and supporting cluster, technology and product development for their businesses. There are three components to the project, the first component being access to microfinance. The aim of the component is to facilitate access to financial services for female growth-oriented entrepreneurs by providing working capital and investment finance through a dedicated line of credit. At the same time, the component aims at improving the capacity of existing Micro-Finance Institutions to serve female growth-oriented entrepreneurs with tailored financial products. The second component is the entrepreneurial skills, technology and cluster development. The aim of this component is to develop growth-oriented women entrepreneurs' skills, facilitate their access to more productive technologies that can raise their incomes, and help unleash synergies from clustering. Finally, the third component is the project management, advocacy and outreach, monitoring and evaluation and impact

3) The industry is evolving into an increasingly commercial operation to serve a larger segment of potential market in the town with its branches.

4) Government's Growth and Transformation Plan II (GTPII)'s growth and expansion strategy (May 2016) clearly indicated that the plan to increase domestic savings concerns both private and public savings. The share of private savings in GDP can planned to rise from 16.6 percent in 2014/15 to 19.8 percent by 2019/20. To this end, from monetary and financial policy perspective, the nominal interest rate will be set in such a way that real interest rate is positive. Besides, policies that encourage banks and microfinance institutions (MFIs) to expand their capital and branch will be pursue. Along with these, strategies to enhance contractual saving (such as private pension fund, health insurance and insurance premium) instruments will be implementing. Pension proclamation will also be revising to cover all private employees.

5. Branch network expansion, introduction of Mobile & Agent banking services, scaling up of saving mobilization and SME financing and human resource development are among key areas of focus that the government has already set targets for MFIs where striving as its focus areas.

6. Tax exemptions by the government to MFI's are one of the biggest opportunities for the institutions influenced the growth for future endeavor.

B) Challenges

Though the Institution has the aforementioned opportunities, the selected MFIs Jimma town, may encounter the various challenges when carrying out its activities. Based the interview responses by the selected MFIs higher officials and review of internal documents, the researcher gathered the following responses pertinent to the institutional challenges. These include-

1. The institution is being highly challenged by a high staff turnover due to big market competition by other MFIs and banks. The staff dissatisfaction is attributable uncompetitive benefits packages and work load. This might affect the institution for high training cost for new staff recruitment process, the operational activity of the institution to achieve its target.

2. Lack of appropriate trainings to staff for financing and banking area has brought low level of technical understanding of banking and finance service. The respondents of the interview addressed that there is a big gap between needs for training and conducting the training throughout the previous years.

3. There is high credit risk: The risk of default on a debt that is because of borrowers' failure to make required payments.

4. Inadequate awareness of the client's bout the MFIs work and sometimes they borrow the money without adequate knowledge for how to invest.

5. Poor customer handling – Evaluation of customer satisfaction with services of the institution not established and an employee of the organization who are serving the clients not develop their capacity with training for how

to handle customer complaints.

6. High risk and high cost developing new products

7. Conclusions and policy Implications

7.1. Conclusions

The overall conclusion is that fund source of funds for the institution has diversified with different sources. Generally, the institutions have its sources of income from its interest on loan portfolio, fees commission for loan portfolio, and other financial revenue like foreign exchange rate, interest on investment. Deposit or saving mobilization is one of sources of income for selected MFIs. Based the analysis of data made earlier the study indicates that the institution's capacity for saving has increased on the years under study. Such funds, in fact, are liabilities for the institution since the institution will reimburse the donated amount to the donor organization. Nevertheless, the data analysis explains the funding sources decreased from year to year. In terms of debt service funds, the selected MFIs also generate funds through borrowing from government banks and donors. Equity financing is the other sources of financing for the institution. As per the data analysis on table 7.1, the equity funding balance from profit and donor funding increased over the study period. Regarding donor funding sources it have observed that it decreased for the consecutive years. The overall trend shows that the institution has made good attempts to diversify its sources of funds.

7.2. Policy Implications

In light of this study, the following policy issues and further research areas identified for the financial and operational performances of the case institution.

1. The fund sources and fund diversification mechanism: The institution has attempted to diversify its funding sources using debt financing, equity financing, deposit or saving financing, and donor financing. The findings show that the microfinance is being self-reliant internally. The donation amounts that constituted 20% of the total funds sources during 2012 has now become only 3% of the figure. Therefore, the decline in the donation and entire cessation of the Child Savings Funds from IMF would have a clear negative implication on the funds sources of the institution.
2. As shown in the result, the portfolio at risk PAR >30 days of the institution have decreased on percentage for the selected MFIs when we compared with the increasing no. clients' and below the benchmark within study period 2012 to 2017. However, the institutions should design others alternatives mechanism to move towards highest collection performance for future implementations to keep its consistency and sustainability.
3. In related with return on assets and return on equity for the selected MFIs above indicated that greater than zero for Harbu Microfinance Institutions (HMF.S.C), which reflects that the institution are able to use its assets productivity and has best performance . On the other hand, in case of return on asset (ROA) and return on equity (ROE) Oromiya Credit and Saving Share Company (OCSSCO) and Eshetu Microfinance Institution (EMF.S.C) have less than zero, which reflects that the institutions are unable to use its assets productivity as result it has low performance. The reason for this due to the low net income (or net loss) realized during the periods. In assess of the fact that these parameters are the means to survive and grow to provide sustained service to the poor without any subsidize and support of fund from external parties. Thus, it is suggest that the institutions should do their best in order to cut some of the expenses and minimize the loan losses in order to be profitable.
4. The selected MFIs were founded to cost efficient as shown the analysis and discussion part of this paper. Hence, the selected MFIs should continue to keep its efficiency through keeping both cost per borrower and cost per saver better communication, improved lending products, new technology, or combination of these improvements in order to minimize cost of operation and run sustainably with no subsidy.
5. In order to increase its opportunity in market, the above three MFIs should be try to do endeavor effort (competitive) for in all areas of the market like; diversify loan products to its customer to generate high income, aligned with Government's Growth and Transformation Plan II (GTPII) because the GTP gives big opportunity for Small and medium enterprises (SME). In addition to MFIs try to invest their capital in the country to increase the economy.
6. In terms of high staff turnover, the institution that forces to lose the most experienced employees. Lack of staff development primarily affects staff motivation and then the performance of institution itself. Hence, the institution should develop and put in place clear staff development strategy such as, carrier structure with attractive pay scheme and staff training policy. Those MFIs should consider introducing performance related incentive system and packages of benefits based on their financial capability. Moreover, it is important to work closely with employees to understand their challenges in related to work load and conduct appropriate trainings means should develop staff training policy and the policy could be adopted to allocate certain percentage of personnel cost for staff development each year to be built in annual plan.

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