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Financial Performance Challenges of Microfinance Institutions in Oromia Regional State: Bale Zone

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Abstract
Microfinance service intervention in Ethiopia is considered as one of the policy instrument of the government and non government organizations (NGOs) to enable rural and urban poor increase output and productivity. It also induces technology adoption, improve input and productivity, improve input supply, increase both individual and national income, reduce poverty and attain food security. Even though MFIs have shown a remarkable growth in outreach and performance in the last 20 years, they are expected to expand significantly to meet the growing demand for loan, saving, and insurance service. The major objective of this study was to assess the financial performance challenges of microfinance institutions in Bale zone, Goba and Robe/Sinanna woreda three branches. The assessment included in the study was analyzing the financial performance challenges of MFIs encountered during their operation. The study covered trend analysis of three fiscal periods, 2005 E.C. to 2007 E.C. Questionnaires, interviews and focused group discussions were used to collect data from respondents of the MFIs in the study area. Purposive and stratified random sampling technique was used to select the required sample size of both officials and clients, respectively. The study found that there was improvement on the current financial performance of the financial institutions. Growth indicator such as growth in outstanding portfolio, personnel productivity showed increasing pattern for each of the three MFI involved in the study. With regarding to the challenges of MFIs, the responses obtained from the MF officials showed that shortage of loan able funds for MFIs and shortage of skilled work force in the field were some of the major challenges facing the current operations of MFIs. Above all, the National Bank of Ethiopia should device ways to solve the shortage of loan able funds by allowing MFIs to borrow sufficient amount from mainstream banks and lend loans to the poor.
Keywords: Microfinance, Performance challenges, Trend analysis, Bale zone
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CHAPTER ONE
INTRODUCTION

1.1. Background of the Study

In Ethiopia, the poverty reduction strategy became the operational framework to translate the global Millennium Development Goals (MDGs) targets into national action (UNDP, 2005). Among previous investigators, Ebisa et al. (2013) identified that the MFIs are motivated to extend the frontier of financial intermediation to those traditionally excluded from conventional financial markets, the poor. A natural question is, thus: how efficiently are they doing this? Previous studies on the efficiency of financial intermediaries consider MFIs and CBs as completely different sectors. The two industries are conventionally left separate in efficiency analysis of financial firms; even though MFIs are motivated merely to extend financial services to those who were not able to access the conventional banking services (Hundanol et al., 2012).

One of the priority areas acknowledged by the Ethiopian government in recent years is the provision of support to microfinance institutions. In this regard the government is working hard to solicit funds from international donors for supporting the microfinance sector, hence the IFAD and AFDB supported Rural Financial Intermediation Program (RUFIP) and the European Union supported Micro and Small enterprise Development program (Meklit et al., 2005). Similar to other countries, 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 (Andinet, 2011). Therefore, 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, as cited in Andinet, 2011). However, the causes for the problems are hardly assessed. The intention of this study was mainly to foster financial performance challenges of MFIs and let the institutions learn from that and adequately contribute to the economic growth of the country.

1.2. Statement of the Problem

According to NBE, 2014 by the end of 2013/14, the number of micro-finance institutions (MFIs) operating in the country reached 32. Their overall performance was encouraging as their total capital and total asset increased by 24.6 and 38.6 percent and reached Birr 5.6 billion and Birr 24.5 billion, respectively. At the same time, their

deposit mobilization and credit provision have expanded remarkably. Compared to last year, deposit mobilization of MFIs went up by 54.8 percent and reached Birr 11.8 billion while their outstanding credit rose by 31.9 percent indicating their expanded outreach (NBE, 2014). Although several studies have been conducted on MFIs in Ethiopia, they usually focus on the impact and performance of MFIs (Asmelash (2003); Bamlaku (2006); Befekadu (2007); Letenah (2009)). Previous studies did not adequately assess the financial and operational performance challenges of MFIs in the study area. On the Other hand, many community service activities were accomplished since the establishment of Madda Walabu University. With this in mind, the researcher attempted to notify financial performance challenges of MFIs and wished that the university technically and professionally support the institutions to fill their gaps and gradually solve their skilled man power problems, lack of financial management and so on. Thus, the intention of this study was to examine the financial performance challenges of microfinance institutions in Bale zone.

1.3. Objectives of the Study

1.3.1. General Objective

The general objective of this study is to examine the financial performance challenges of microfinance institutions in Bale zone.

1.3.2. Specific Objectives

` Specific objectives of the study are:

- To assess the financial performance challenges of MFIs in the study area.

1.4. Research Questions

1) What are the financial performance challenges of MFIs in the study area?

CHAPTER TWO
REVIEW OF RELATED LITERATURE

Under this section the theoretical and empirical evidences focusing on the financial performance challenges are presented. Accordingly, the first section, describes overall theoretical overview of microfinance institution concepts. The second section presents review of empirical studies on the financial and operational performance challenges of MFIs.

2.1. Financial Performance Indicators of MFIs: Portfolio Theory

The portfolio theory approach is the most important and plays a great role in bank performance studies. As per the Portfolio balance model of asset diversification, the best possible holding of each asset in a wealth holder's portfolio is a function of policy decisions determined by a number of factors such as the vector of rates of return on all assets held in the portfolio, a vector of risks associated with the ownership of each financial assets and the size of the portfolio (Njerl, 2012, as cited in Abebaw, 2014 p. 35). The portfolio theory further explained as portfolio diversification and the desired portfolio composition of commercial banks or MFIs are results of decisions taken by the bank's or institution's management. Further, the ability to obtain maximum profits depends on the feasible set of assets and liabilities determined by the management and the unit costs incurred by the bank for producing each component of assets.

2.1.1. Portfolio Quality

Portfolio indicates to total funds available for the MFI to use as loans to its clients. Portfolio quality is a measure of how well or how best the institution is able to protect this portfolio against all forms of risks. The loan portfolio is by far an MFI"s largest asset (Nelson, 2011) and, in addition, the quality of that asset and therefore, the risk it poses for the institution can be quite difficult to measure. For microfinance institutions, whose loans are typically not backed by bankable collateral, the quality of the portfolio is absolutely crucial (American Development Bank, 2003 cited in AEMFI, 2013) Portfolio quality is a vital area of analysis, since it is the largest source of risk for any financial institution. Therefore, as much as possible, MFIs must try to maintain the quality of their portfolios. For this study, portfolio quality is measured as portfolio at risk over 30 days (PAR >30 days).

According to, Muriu (2011) empirical study on determinants of profitability of African MFIs, under the study "what explains the low profitability of MFIs in Africa" tried to find the factors contributing to profitability of MFIs. He used Generalized Method of Moments (GMM) system using an unbalanced panel dataset comprising of 210 MFIs across 32 countries operating from 1997 to 2008. The proxies for profitability were both ROA and ROE. Credit risk measured by the sum of the level of loans past due 30 days or more (PAR>30) and still accruing interest is negatively and significantly related to MFI profitability. This study therefore finds evidence to support the conjecture that increased exposure to credit risk is normally associated with lower MFI profitability.

The other study which is undertaken by Lafourcade et al., (2006) overview of the outreach and financial performance of microfinance institutions in Africa by taking 163 MFIs from 25 countries show that MFIs around the world continue to demonstrate low PAR > 30 days, with a global average of 5.2 percent but African MFIs

maintain relatively high portfolio quality, with an average PAR > 30 days of 4.0 percent, performing better than their counterparts in South Asia (5.1 percent), LAC (5.6 percent), and East Asia (5.9 percent).

2.1.2. Portfolio at Risk (PAR)

Maintaining quality portfolio is not that simple as it is exposed to different risk. A MFI must balance many different types of risk within its portfolio. Common risks include (Nara, 2007):

Credit Risk: This risk originates due to client's unwillingness or inability to repay their loans. Credit risk results in a deterioration of the MFI's portfolio, reduced revenues, and increased operating expenses.

Interest Rate Risk: Any changes in the level of market interest rates during the term of a loan relates to interest rate risk. This risk originates from the mismatch of the maturities of the MFI's assets and liabilities.

Liquidity Risk: A MFI's difficulty in obtaining needed cash at a reasonable cost. The largest source of risk for any financial institution resides in its loan portfolio. The loan portfolio is by for a largest asset of the microfinance institution (MFI).

On the other hand, as (Peter et al., 2004) cited in (Sara, 2014 p.25) find that the ratio of women borrowers within the total clients has relationship with MFIs loan portfolio. They suggest that group lending can significantly improve repayments and therefore reduce risks in loan portfolios. Espallier (2009), study analyzed gender differences with respect to microfinance repayment rates using a large global dataset covering 350 microfinance institutions in 70 countries. The result revealed that more women clients are associated with lower portfolio at risk, lower write-offs and lower credit loss provisions. The study in general revealed that women are a better credit- risk for MFIs, as the effect were stronger for NGO's individual based lenders, finance plus providers and regulated MFIs.

Micha'el (2006), study attempted to identify some of the main factors that influence microfinance level loan repayment performance of the informal sector. Data for the study was collected through a structured interview, questionnaire and informal discussion in ten sub-cites of Addis Ababa. The results of the study indicated that the better repayment performance were strongly and directly associated with educational level of borrower, insufficiency of the loan granted and un-planned engagements in business activity do also reduce repayment performance.

Beatrice (2012) investigated external factors (socio political instability, economic downturn, weather conditions inability to enforce); MFIs (corporate governance, loan process and procedures, default recovery methods.) and self- help group's specific factors (group governance, members of screening process, default recovery methods). The study findings revealed that as there exists a positive and significant relationship between loan delinquency and MFIs specific factors. In addition self- help group's specific factors have a significant relationship to loan delinquency performance. Suraya (2011) investigated the determinants of loan repayment problems among microfinance borrowers in Tekun and Yum institutions in Malaysia. He noted that borrower's characteristics (age, gender, type of business involved and microcredit loan characteristics (mode of repayment amounts) are as the factors to microcredit loan repayment amounts problems, therefore result in risks in loan portfolio.

Srinivasan (2007) addressed the measurement of loan delinquency and default in microfinance institutions (MFIs) in India during 1998 to 2006 period. The paper concluded that the mature i.e. the rate after say a year of operations of MFI current collection rate, portfolio at risk number would not mislead and with improper loan loss provision net portfolio at risk will not reflect delinquency correctively, therefore concluded that the collection rate as useful for estimating delinquency. Romy (2007) analyzed also the impact of institutional characteristics on the default rates of non- profit MFIs. He stated that a focus on women borrowers, on institutional incorporation into the community, and on client led programming all lead to lower default rates and thus greater success. Jackle (2013) analyzed micro and macro indicators of MFIs portfolio quality. He noted that PAR over 30 days is statistically significant driven by its own past trend, size of gross loan portfolio and how it grows, operational self- sufficiency, loss provisioning and write- off policy, amount of female borrowers and the degree of loan monitoring on the micro side and on macro side indicators (inflation rate, the labor force participation rate and depth of financial system as important. Letenah (2009) find also that large and small MFIs are allocating more loan loss provision expense than the industry average and the related portfolio at risk is high for these MFIs and microfinance age correlated positively with efficiency and productivity.

Norhaziah et al. (2013) examined the loan repayment problems in microfinance programs in peninsular Malaysia using a total of 30 respondents with the MFI staffs and clients. The study result revealed that the factors affecting the ability of borrowers to repay their loans are business factors, borrower's attitude towards their loans, other debt burden, amount of loan received, business experience, business formality and family background. Finally, the researcher concluded that those factors result in risks in loan portfolios. Adayemo et al. (2007), study provided empirical analysis of microcredit repayment in southwestern Nigeria, multi stage ratified random sampling procedure was used to collect data from 200 members of MFIs in the study area. The study findings revealed that amount of loan borrowed, access to business information, and penalty for lateness to group meetings as significantly influence of their loan repayment performance.

Walter et al. (2013) investigated the causes of loan default in Trans Nzoia using a sample of 150 MFIs (100 MFI loan borrowers and 50 MFIs official loan borrowers). They find loan repayment default was a result of non-supervision of borrowers by MFIs, in adequate training of borrowers on utilization of loan funds before the received loans. The findings also revealed that most borrowers did not spend the loan amount on intended and agreed projects.

2.1.3. Productivity and Operational Efficiency

Operational self-sustainability is when the operating income is sufficient enough to cover operational costs like salaries, supplies, loan losses, and other administrative costs. And financial self-sustainability (which he referred as high standard measure) is when MFIs can also cover the costs of funds and other forms of subsidies received when they are valued at market prices (Meyer, 2002).

Operating Expense to Portfolio Ratio

Operating expenses to portfolio ratio (OEP ratio) can be used as a measure of cost-efficiency and it is frequently used in the microfinance literature (Ledgerwood, 1998). The OEP ratio indicates the cost needed for the MFI to operate one unit of its portfolio. The ratio ranges from 0 to 1 where a ratio close to zero indicates a highly efficient MFI. According to (Erlend et al., 2009), considering the size of the portfolio, larger MFIs can compare its cost level with smaller MFIs. Ahmed et al. (2006) and Gonzalez (2007) use the OEP ratio in their papers on financial efficiency, and the rating agencies highlight the ratio in their reports.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1. Research Design

This research was mainly designed to assess the financial & operational performance challenges of three MFIs found in Bale Zone namely PEACE, OCSSCO Goba branch and OCSSCO Robe/Sinanna branch. These MFIs are purposively selected due to their location of zonal offices & where major activities are held. Census was applied for officials/employees currently working in the selected MFIs since they were manageable. To draw the required sample size of clients/beneficiaries from the three MFIs 10,000 populations, stratified sampling technique was employed. Thus, 384 officials/employees and beneficiaries or clients were selected as subject of the study using Yamane's (1973) sample size determination formula. Both primary and secondary data collection sources were used. Using these two sources, the researcher applied different data collection methods such as questionnaires, interviews, focused group discussions and observation. Moreover, in the data collection methods of the unstructured questionnaire, close and open ended questions were included. Unstructured interviews were also conducted and employed with the help enumerators. Moderators were also took their part in facilitating focused group discussions of clients.

Descriptive and content analysis were used to analyze quantitative and qualitative data respectively. The descriptive data analysis comprised of trend analysis of financial ratios from the financial statements, portfolio and activity reports of the three selected MFIs. The study covered three consecutive fiscal periods, 2005E.C to 2007E.C. Finally, to keep the reliability and consistency of primary data collected, questionnaires and interviews were translated into Afan Oromo and Amharic languages.

3.2. Sampling Design and Sample Size Determination

Sample design specifies sampling technique used to draw true representative sample from the study population. Goba and Robe *Woredas* Microfinance Institutions (MFIs) were purposively selected due to the availability of MF branch offices and where major financial activities were held in these two towns. On top of this, potential beneficiaries such as TVET and university graduates who need more services from Microfinance Institutions in addition to the Small Scale Microenterprises as well as many poor residents are found in these two *Woreda* towns (zonal and *woreda* MFIs, 2015). Secondly, Oromia Credit and Savings Share Company (OCSSCO) and Poverty Eradication and Community Empowerment (PEACE) were selected purposively because of their dominance in credit and loan portfolio management along with their location of major *zonal* office.

Some scholars suggest application of the stratified sampling to determine representative sample size. Strata are purposively formed and are usually based on past experience and personal judgment of the researcher kotari (2004). According to, this proportional allocation, stratified sampling technique is considered most efficient and an optimal design when the cost of selecting an item is equal for each stratum, there is no difference in within-stratum variances, and the purpose of sampling happens to be to estimate the population value of some characteristic. The researcher prefers to conduct equal sample selection from each stratum would be more efficient even if the strata differ in sizes due to time and financial constraints. Thus, 338 total sample size/respondents were selected, nearly 100 and above from each strata or each stratum proportionally and intentionally.

Following their arguments, the researcher has adopted the under mentioned Taro Yamane's (1973) sampling formula was used at 95% confidence level.

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

Where: **n** = sample size,
N = Population size = 10,000,
e = sampling error/level of precision = 5%

To illustrate how the predetermined sample size of the total population is calculated as follows:

a) Applying the above formula,

$$n = \frac{10{,}000}{1+10{,}000\ (0.05)^2}$$

$$= \frac{10{,}000}{26}$$

= 384 sample respondents were considered

Table 3.1. Sample frame of the population study area based on the stratified sampling technique

No	Microfinance Institutions	*Woredas* (Branches)	Active Clients	Proportionate Sample size of clients
1	OCSSCO	Goba	2,892	111
2	PEACE	Goba	2,970	114
3	OCSSCO	Robe	4,138	159
Total			**10,000**	**384**

Source: *Zone* and *wereda* MFIs, 2015
Note: The actual respondents involved in the survey include both the Clients & Employees.

3.3. Data Presentation and Analysis

To achieve the research objective, the study mainly used descriptive data analysis. Descriptive statistics, such as means, percentages, and standard deviations were used to illustrate general patterns in the data. Furthermore, ratio analysis which includes: profitability and sustainability ratios, productivity and operational efficiency ratios; comparative analysis of financial statements over time (trend analysis) along with descriptive analysis was used for quantitative data. Content analysis along with descriptive data analysis was used to analyze and interpret non-financial data, responses of both officials/employees and clients/beneficiaries were used for qualitative data. Moreover, under qualitative analysis assessment of the institutions managerial aspects and operation were analyzed based on the officials' response and the secondary data collected from the documents. Statistical Package for Social Sciences (SPSS) software version 20 was used to facilitate the research process. Tables and graphs were used as the means of data presentation.

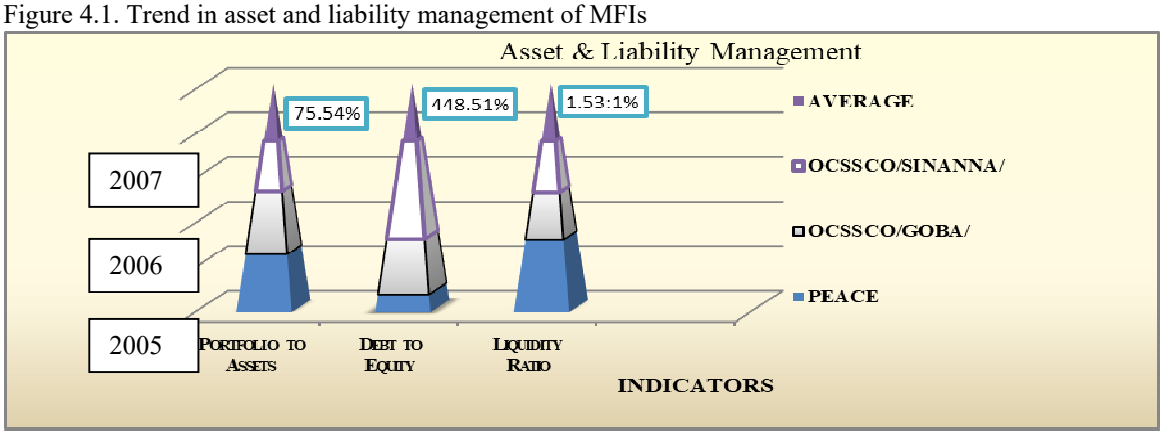
CHAPTER FOUR
DATA ANALYSIS, INTERPRETATION AND DISCUSSION

This section of the data analysis and interpretation comprised of information gathered from documents and records of financial statements. Furthermore, the whole data analysis and interpretation was followed by convenient results and discussions in line with the research questions.

4.2. Financial Performance of Microfinance Institutions

4.2.1. Asset and Liability Management

Figure 4.1. Trend in asset and liability management of MFIs



Source: Bale zone and *Woreda* branch MFIs, 2016

The researcher made effort to analyze both the financial and operational reports of the MFIs in the study in asset and liability management for three fiscal periods, 2005 to 2007 as follows.

i) Portfolio to Asset and Debt to Equity Ratios

This portfolio to asset ratio shows how well an MFI allocates its assets to its primary business (making loans and providing other financial services to micro entrepreneurs). As per the above figure 4.1, selected microfinance institutions on average allocated 75.54% of their assets to provide loan services to micro entrepreneurs or clients. The above figure 4.1 and statement reports showed that microfinance institutions devoted more than three-forth of their assets in making loans to their clients. For instance, PEACE MF reported 64.43%, 89.78% and 75.53% for the fiscal years 2005 to 2007. And OCSSCO Goba branch also reported 78.16%, 83% and 88.03% remarkable increase for the same periods. Furthermore, OCSSCO Robe/Sinanna branch, registered portfolio to asset ratio of 79.05%, 65% and 56.91% for the fiscal year 2005 to 2007 respectively. Most microfinance institutions used more than 66% of the assets to their primary activity. Relatively PEACE microfinance institution devoted the highest portion (89.78%) of its asset in making loan to the poor section of the society. On the other hand, debt to equity ratio indicates how well the MFI is able to leverage its equity to increase assets through borrowing. It also indicates the safety cushion or protect the institution has to absorb losses before creditors are at risk.

All selected MFIs had the highest average debt in proportion to their equity (448.51%) debt to equity ratio. From this it can be concluded that all the three MFIs in the study were performed well in obtaining funds. For MFIs, maintaining sufficient cash is important not only to pay bills, salaries or creditors but also uphold its promise to provide repeat loans to clients, which is a major incentive to repay loans (Alemayehu, 2008). Similarly, any financial institution that fails to repay client deposits on time is likely to lose client confidence on the firm and access to future funding. From all MFIs OCSSCO Robe/Sinanna branch made better debt to equity ratio (1614.54%) in 2006 than other fiscal periods as compared to its counter parts. According to AEMFI, (2013) report Ethiopian microfinance institution on average debt to equity ratio was able to maintained 1.5 of their equity. Therefore the result of the study shows the value higher than the minimum requirement.

ii) Liquidity Ratio

With regard to liquidity ratio, it indicates the sufficiency of cash to meet the most immediate payment. As per the above figure 4.1 and reports obtained from the MFIs, all the microfinance institutions reported almost an average 2:1 ratio in terms of liquidity for the year 2005 to 2007. Thus, it seems reasonably adequate for each of the three years as the industry norm is between 1:1 and 5:1. From this one can infer that the three sampled institutions were able to meet their maturing (current) obligations without borrowing cash.

4.2.2. Profitability & sustainability

Table 4.1. Trend in sustainability and profitability of MFIs

Indicators	MFIs	Branches	Years of operation		
			2005 E.C	2006 E.C	2007 E.C
Return On Assets	PEACE	Goba	51%	54%	61%
	OCSSCO	Goba	2.30%	1.60%	5.61%
	OCSSCO	Robe/Sinanna	9.06%	2.56%	1.60%
Return On Equity	PEACE	Goba	46.29%	51.22%	25.65%
	OCSSCO	Goba	55.82%	13.01%	17.80%
	OCSSCO	Robe/Sinanna	69%	81.63%	167.04%
Operational Self Sufficiency	PEACE	Goba	91%	97%	100%
	OCSSCO	Goba	244.52%	188.90%	278.62%
	OCSSCO	Robe/Sinanna	83.16%	279.52%	45.61%
Financial Self Sufficiency	PEACE	Goba	91%	97%	100%
	OCSSCO	Goba	17.09%	NA	NA
	OCSSCO	Robe/Sinanna	43.09%	NA	NA

Source: Bale zone and *Woreda* branch MFIs, 2016

Return on Assets (ROA) and Return on Equity (ROE) Ratios

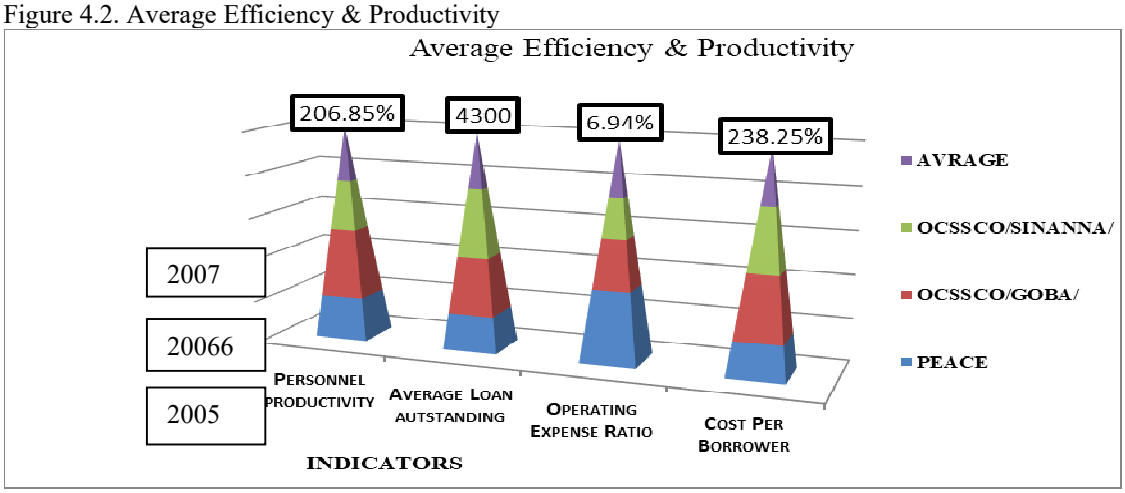
Balance sheet percentages are usually based on the total assets (as 100%). This analysis was based on the statement of financial position and the profit and loss reports of the selected MFIs. For PEACE MFI, the total assets and the net worth at the end of 2006 increased as compared to the previous years, whereas the firm's total liabilities during the years showed decreasing pattern. The increase in assets and net worth are attributed to the higher operating income gained by the firm and thus, the Return on Assets raised for the years 2005 to 2007 with the ratios of 51%, 54% and 61% respectively as revealed on table 4.7 above. And the Return on Equity for PEACE also rose to some extent as 46.29%, 51.22% and 25.65% respectively for the same fiscal periods. On the other hand, the return on assets (ROA) for OCSSCO Goba branch for 2005, 2006 and 2007 fiscal periods were

2.30%, 1.60% and 5.61%, respectively. The return on assets reported in 2006 was very low as compared to the industry standard of 2% for growing MFIs. This low return on asset ratio was mainly due to the low level of operating income reported by the firm. However, in 2007 the return on assets ratio increased to 5.61% together with the increase in net income. Thus, this revealed us that the firm accomplished better compared to the previous year. Similarly, the Return on Equity for OCSSCO Goba branch also rose to some extent in 2005 as 55.82%, then after 13.01% and 17.80% respectively for 2006 and 2007 fiscal periods that showed some fluctuations but increasing at a decreasing rate. On the other hand, in 2005, in its first full year operation, OCSSCO Robe/Sinanna branch MF reported a return on assets ratio of 9.06% which was a good achievement for the firm. However, in 2006 and 2007 the ROA declined as revealed on table 4.7. Similarly, OCSSCO Robe/Sinanna branch also showed a remarkable increase on its ROE for the whole fiscal years 2005 to 2007 as 69%, 81.63% and 167.04% respectively. In general, this implied that the MFIs were not incurred a loss in respective fiscal years due to absence of loan losses. To sum up, all the three MFIs had good achievement on both ROA and ROE for the fiscal years 2005 to 2007 that revealed the MFIs' sustainability and profitability.

4.2.3. Efficiency and Productivity

To this effect, the trend of MFIs efficiency and productivity was investigated (see figure 4.3).

Figure 4.2. Average Efficiency & Productivity



Source: Bale zone and *Woreda* branch MFIs, 2016

a) Operating Expense/Cost Ratio Analysis

As can be seen from the figure 4.2 above and the reports obtained, an attempt was 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 were presented for each of the MFIs as follows.

For PEACE MFIs the results showed 6.49%, 6.06% and 15.57% for 2005, 2006 and 2007 fiscal years respectively. This ratio measures the cost per unit of money lent as shown in figure 4.2 above. Thus, for PEACE the cost for 2005 was 6.49% per unit of money lent which was much more than 25% target set by the firm. However, in 2006 the ratio also decreased to 6.06%. The data for the year 2007 also increased to 15.57% for PEACE. Therefore, one can deduce that compared to the previous years (2005), 2006 and in 2007 PEACE MFI be inefficient in meeting its target due to the increase in costs per unit of money lent whatever the set target.

The results obtained for OCSSCO Goba branch from the annual reports showed more or less similar results. The cost per unit of money lent for OCSSCO Goba branch for the years 2005, 2006 and 2007 reported 4.01%, 6.44% and 8.72%, respectively. Hence, one could infer from this the ratios for each year is higher compared to each fiscal year. Thus, the institution seems inefficient because the cost per unit of money lent was increased whatever the institute put as the set target. We also obtain similar results if we go through the reports of OCSSCO MFIs. Hence, it seems a bit inefficient and unproductive compared to the consecutive years. But compared to the standard set by the firm (which is 25%), it seems efficient. Furthermore, Abebaw (2014) found that some highly efficient institutions incur operating expense of 0.01 cent for each birr in the gross loan portfolio. On the other hand, inefficient institutions in the industry incur an operating expense of 0.42 cents for each birr on their gross loan portfolio. For OCSSCO Robe/Sinanna branch, the annual report showed 3.54%, 5.63% and 6.01% increasing trend of cost per money lent for clients for fiscal years 2005 to 2007 respectively. The results in general showed that the higher the cost, the lower the financial performance of the selected MFIs. In addition, the results indicated that the three MFIs were less efficient in managing their costs/expenses.

To sum up, from the results presented in the above paragraphs, one could easily infer that the financial efficiency ratios of the institutions were unfavorable since the ratio is increasing and positive.

b) Productivity Ratio Analysis

This variable often helps to measure financial and operational performances of MFIs. The number of active

borrowers per staff was used to assess productivity ratio. Regarding the productivity ratio, the total number of active borrowers for each of the selected MFIs was compared with the total number of staff for 2005 to 2007 fiscal periods. Accordingly, for PEACE MF the results obtained from its annual operations report indicated (1493/10), or 149 in figure 4.2 above. Hence, compared to the 2005 report (1784/10 or 178), the number increased significantly, evidencing the firm's productivity. The reports obtained for OCSSCO Goba branch also indicated similar results. For instance, in 2005, the results as per the analysis indicated quite an impressive achievement (2450/12), 204. For 2006 and 2007, the results showed (3180/13), or 245 and 4800/14 or 343, which was more productive than 2005. Compared to PEACE and OCSSCO Robe/Sinanna branch, OCSSCO Goba branch was more productive for it reported more than what was reported by PEACE in both 2005 and 2006. From the report obtained for OCSSCO Robe/Sinanna branch indicated, 2800/20 or 160, 3980/21 or 190 and 5300/22 or 241 had shown an increasing trend in fiscal years 2005, 2006 and 2007, respectively. Hence, one could infer that the number of clients per number of staff increased significantly.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The main objective of this survey as it was indicated earlier in the previous consecutive chapters was to make an assessment of the financial performance challenges of micro finance institutions in Bale zone. On the basis of the data obtained from the respondents through questionnaires, interviews, focused group discussions and observations as well as the financial reports of the respective MFIs, for three fiscal periods, interpretation and analysis of data were made. The summary result and conclusions of data analysis and interpretation are presented here under.

5.1. Summary

From the responses obtained for selected MFIs of the study, in order increase voluntary savings and reduce withdrawals, it is important that they: (1) should increase the loan size, (2) pay higher interest rates for savings, and (3) educate clients. An attempt was also made to evaluate the operating cost ratios of the selected MFIs by comparing their respective operating costs with the average value of loans outstanding. Hence, the results revealed that the institutions are efficient in this regard since a declining ratio is positive. Regarding the productivity ratio the total number of active borrowers for each of the selected MFIs was compared with the total number of loan officers. The data for the year 2007 was not found for PEACE. Therefore, as compared to the (2005), in 2006 PEACE MFI was not efficient in meeting its target due to the increase in costs. The results obtained for OCSSCO Goba branch from the annual reports showed more or less similar results. The cost per unit of money lent for OCSSCO Goba branch for the years 2005, 2006 and 2007 reported 4.01%, 6.44% and 8.72%, respectively. Thus, the institution seems inefficient because the cost per unit of money lent was increased whatever the institute put the set target. For OCSSCO Robe/Sinanna branch, the annual report showed 3.54%, 5.63% and 6.01% increasing trend of cost per money lent for clients for fiscal years 2005 to 2007 respectively.

5.2. Conclusions

The institution seems inefficient in controlling costs, because the cost per unit of money lent was increased whatever the institute put as the set target.

All the three MFIs had good achievement on both ROA and ROE for the fiscal years 2005 to 2007 that really revealed the MFIs' sustainability and profitability. Furthermore, the trend in financial and operational performance in all the three selected microfinance institutions were promising, from profitability and sustainability point of view.

The institutions ROA and ROE show favorable results. Especially for OCSSCO MF the result for ROA and ROE for the fiscal years 2005 to 2007 reflected positive ratios. The efficiency of the firms in terms of operating cost ratios shows declining trends. Thus, it is an indication the institutions' efficiency and better performance.

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