



**ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
MASTER OF BUSINESS ADMINISTRATION IN FINANCE**

An Assessment of Selected MFIs Financial Performance and Perception of their Contribution for Community Development: (Evidence from ADCSI and OCSSCO in Sendafa Bekie Town and Yeka sub city)

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College of Business and Economics

This is certify that the thesis prepared by Adisu Mulu, entitled An Assessment of Selected MFIs Financial Performance and The Perception of Their Contribution For Community Development: (Evidence from ADCSI and OCSSCO in Sendafa Bekie town and Yeka sub city), which is submitted in partial fulfillment of the requirements for the Degree of Master of Business Administration in finance (MBA), complies with the regulation of the university and meets the accepted standards with respect to originality and quality.

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Abstract

The purpose of this study is to assess the financial performance of microfinance institutions and the perception of their contribution for community development. The researcher used both qualitative and quantitative research approaches. Specifically, the study employs data obtained from a documentary review, a questionnaire survey and interviews through random and purposive sampling techniques respectively. The researcher chose 98 clients from ADCSI and 81 clients from OCSSCO through random sampling technique in Sendafa Bekie town and 60 clients from ADCSI in Yeka sub city wereda 11 branches through random sampling for the purpose of comparison. The study revealed that Addis credit and saving institution have achieved the outreach, return on equity, operational self-sufficiency and profitability. However, the institution has not achieved the portfolio quality, return on asset and efficiency for the last five years. Outreach, profitability, operational self-sufficiency, operational cost and return on equity of Oromiya credit and saving Share Company are improved over time. However, portfolio quality and Cost per borrower of Oromiya credit and saving Share Company is not improved. Also the results show that the living standards of the communities and business operations are perceived to be improved after they join the microfinance program in Sendafa Bekie town and Yeka sub city, but it is better in Yeka sub city. The main challenges while providing microfinance services are Shortage of skilled man power, failures of clients business, Loan default, limited portfolios and transportation problems during follow up. Finally, based on this study, it is recommended that MFIs should try to diversifying the microfinance program, offer enough capital to run their business and establish strong networks with governmental and non-governmental organizations to provide effective microfinance services to the poor communities in Sendafa Bekie town.

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Table of Content

| | |
|--|------|
| Abstract..... | iv |
| Table of Content | vi |
| List of tables..... | x |
| List of Abbreviations | xiii |
| Chapter one | 1 |
| Introduction..... | 1 |
| 1.1. Background of the study | 1 |
| 1.2. Statement of the problem | 2 |
| 1.3. Research objective and research questions for the study | 3 |
| 1.4. Scope of the study..... | 4 |
| 1.5. Significance of the study..... | 4 |
| 1.6. Limitation of the study..... | 4 |
| 1.7. Organization of the thesis | 5 |
| Chapter two..... | 6 |
| Literature review | 6 |
| 2.1. Theoretical literature review | 6 |
| 2.1.1. Concept of microfinance institutions | 6 |
| 2.1.2. Approaches of Microfinance..... | 8 |
| 2.1.3. Microfinance and Poverty Alleviation | 9 |
| 2.1.4. Need of Microfinance | 11 |

| | | |
|---------------------------|--|----|
| 2.1.5. | Government Role on MFIs services..... | 12 |
| 2.1.6. | Financial Performance | 13 |
| 2.1.6.1 | . Financial performance indicators..... | 14 |
| 2.2. | Empirical Evidence..... | 16 |
| 2.3. | Knowledge Gaps..... | 22 |
| 2.4. | Conceptual Framework..... | 24 |
| Chapter three..... | | 25 |
| Research methodology..... | | 25 |
| 3.1. | Research approaches..... | 25 |
| 3.2. | Methods adopted: Mixed research approaches | 25 |
| 3.2.1. | Quantitative research method aspect..... | 26 |
| 3.2.2. | Qualitative method aspect..... | 29 |
| 3.3. | Research quality issues | 30 |
| 3.4. | Ethical considerations | 30 |
| Chapter four | | 32 |
| 4. | Results and analysis | 32 |
| 4.1. | Results..... | 32 |
| 4.1.1. | Results of data obtained from ADCSI and OCSSCO | 32 |
| 4.1.2. | Survey results..... | 36 |
| 4.1.3. | Interview results..... | 55 |
| 4.2. | Analysis..... | 59 |

| | |
|-------------------------------------|----|
| Chapter Five..... | 73 |
| Conclusion and Recommendation | 73 |
| 5.1. Conclusion | 73 |
| 5.2. Recommendations..... | 76 |

List of tables

| | |
|--|----|
| Table 4.1: Outreach of ADCSI and OCSSCO | 32 |
| Table 4.2: Operational self-sufficiency of ADCSI and OCSSCO..... | 32 |
| Table 4.3: Return on asset | 34 |
| Table 4.4: Return on equity..... | 34 |
| Table 4.5: Cost per borrower ratio | 35 |
| Table 4.6: Operating cost ratio | 35 |
| Table 4.7: Portfolio at risk | 35 |
| Table 4.8: Gender of respondents..... | 36 |
| Table 4.9: Respondents' age | 37 |
| Table 4.10: The sample by marital status | 37 |
| Table 4.11: Respondents' education | 38 |
| Table 4.12: Family members before and after join to MFIs | 38 |
| Table 4.13: Occupation of the respondents | 39 |
| Table 4.14: Source of income of the respondents before join to MFIs program | 39 |
| Table 4.15: Level of income of the respondents before join to MFIs | 40 |
| Table 4.16: Products provided by MFIs | 41 |
| Table 4.17: Source of credit other than MFIs | 42 |
| Table 4.18: Purpose did you receive loan | 43 |
| Table 4.19: Spend the total amount of borrowed money for intended purposes | 44 |
| Table 4.20: Average monthly income after the loan | 44 |
| Table 4.21: Training provided by the microfinance institution and types of training | 45 |
| Table 4.22: Amount of credit approved to you is sufficient to run your business | 46 |
| Table 4.23: Amount of credit approved to you is sufficient to improve living standards | 46 |
| Table 4.24: How do you evaluate the women participation of MFIs services | 47 |
| Table 4.25: Do you use hired labor for your business..... | 48 |
| Table 4.26 What is the average monthly cost of labor for your business: | 48 |
| Table 4.27: After joining the MFIs program, do you think the amount of income is increased. | 48 |
| Table 4.28: After joining MFIs program, do you think the amount of saving is increased | 49 |
| Table 4.29: After joining the MFIs program, do you think the housing condition is improved.. | 49 |

| | |
|--|----|
| Table 4.30: Access to educational facilities of the respondents | 50 |
| Table 4.31: Access to medical facilities has improved after join to microfinance program..... | 50 |
| Table 4.32: Status of the household nutrition of the respondents after joined to program..... | 51 |
| Table 4.33: Problems faced to the respondents in microfinance program | 52 |
| Table 4.34: Does the micro finance institution provide training and consultancy services | 53 |
| Table 4.35: What was the reason for lack of training from MFIs?..... | 53 |
| Table 4.36: Does the institution supervise your activities on how to use money | 53 |
| Table 4.37: Measures taken by the government to support the micro finance services | 54 |
| Table 4.38: The roles of the government to assist your business | 55 |
| Table 4.39: Descriptive statistics for ADCSI..... | 63 |
| Table 4.40: Descriptive statistics for OCSSCO | 63 |
| Table 4.41: Mean and Std. Deviation of products provided by MFIs..... | 67 |
| Table 4.42: Contribution of MFIs means and Std. Deviation for Sendafa Bekie town | 69 |
| Table 4.43: Contribution of MFIs means and Std. Deviation for Yeka sub city..... | 70 |

List of figures

| | |
|---|----|
| Figure 2.1: Conceptual framework..... | 24 |
| Figure 4.1: Trend of outreach | 60 |
| Figure 4.2: Trend of ROA | 61 |
| Figure 4. 3: Trend of portfolio at risk | 62 |

List of Abbreviations

| | |
|---------------|---|
| <u>ACCION</u> | <u>Americans for Community Cooperation In Other Nations</u> |
| <u>ACSI</u> | <u>Amhara Credit and Saving Institutions</u> |
| <u>ADB</u> | <u>Asian Development Bank</u> |
| <u>ADCSI</u> | <u>Addis Credit and Saving Institutions S.C</u> |
| <u>AEMFI</u> | <u>Association Ethiopian Micro-Finance institution</u> |
| <u>CGAP</u> | <u>Consultative Group to Assist the poor</u> |
| <u>ETB</u> | <u>Ethiopian Birr</u> |
| <u>FINCA</u> | <u>Foundation for International Community Assistance</u> |
| <u>FSS</u> | <u>Financial Self Sustainability</u> |
| <u>HMF</u> | <u>Housing Microfinance</u> |
| <u>MFB</u> | <u>Microfinance Bank</u> |
| <u>MFI</u> s | <u>Micro Finance Institutions</u> |
| <u>MIX</u> | <u>Microfinance information exchange</u> |
| <u>MSE</u> | <u>Micro and Small Enterprise</u> |
| <u>NBFIs</u> | <u>Nonbanking Financial Institutions</u> |
| <u>NGOs</u> | <u>Non-Governmental Organization</u> |
| <u>OCSSCO</u> | <u>Oromiya Credit and Saving S.C</u> |
| <u>OSS</u> | <u>Operational Self Sustainability</u> |
| <u>OSZSF</u> | <u>Oromia Special Zone Surrounding Finfinne</u> |

| | |
|--------------|---|
| <u>PAR</u> | <u>Portfolio at Risk</u> |
| <u>ROA</u> | <u>Return on Asset</u> |
| <u>SFPI</u> | <u>Specialized Financial and Promotional Institutions</u> |
| <u>SME</u> | <u>Small and Medium-sized Enterprises</u> |
| <u>USAID</u> | <u>United States Agency for International Development</u> |
| <u>WEDP</u> | <u>Women Entrepreneurship Development Program</u> |

Chapter one

Introduction

This chapter introduces the background of the research, statement of the problem, objectives of the study and research questions, scope and significance of the study, limitations of the study and organization the paper in an orderly manner.

1.1. Background of the study

Microfinance institutions(MFIs) can be defined as the “provision of banking services such as saving, credit, and money transfer to the poorer who cannot access ordinary mainstream banking services” (Wilson, 2003 p.1). As noted by Shaik and Tolosa (2014) microfinance institutions deliver micro-loans, micro-savings, micro-insurance, money transfer, leasing, etc. to a large number of productive resource-poor people in a cost-effective and sustainable way. Teffera (2005) argue that the primary goal of most microfinance institutions is improving the economic status of poorer segment of population, most service provider’s aim for a broader impact of enhanced wellbeing.

Sintayehu (2014) concluded that microfinance services not only raise income of deprived groups, but also improve their health and level of education, and their influence on public decisions”, these all credit their vital social role. Thus, they contribute a lot for human development which is an increasingly important sphere of development.

Andinet (2011) argue that Paramount objective for MFIs to be successful is financial self-sustainability and in achieving this objective, MFIs have challenge in how to become viable institution that built a firm foundation of efficient operation. Institutional and financial viable microfinance institutions play a leading role in poverty reduction.

By the end 2014/2015, the number of MFIs in Ethiopia reached 35. Their total capital and total asset also increased significantly by 27.2 and 24.6 percent and reached Birr 7.2 billion and Birr 30.5 billion, respectively. These MFIs mobilized deposits which went up by 25.9 percent and reached Birr 14.8 billion. Their outstanding credit also expanded by 29.5 percent as the increased their outreach. The five largest MFIs, namely Amhara, Dedebit, Oromiya, Omo and Addis Credit

and Saving Institutions , accounted for 84.2 percent of the total capital, 93.5 percent of the savings, 89.3 percent of the credit and 89.7 percent of the total assets of MFIs(NBE, 2014/2015).

Sendafa Bekie town is one of the Oromia special zones surrounding Addis Ababa. Yazachew and Kasahun (2011) indicated that the town is one of the highest population urban dweller of the total population lives in the eight major towns which is found in Oromiya special zones. The population is increase from time to time in the town. The major population growth in these major towns is as a result of both rural-urban and urban migrations. To facilitate these economic activities the MFIs is very vital. The objective of this study is to assess the financial performance of microfinance institutions to provide services to improve the business activities and living standards of Sendafa Bekie communities.

Alemayehu (2008) tried to see the performance of the institutions in case of six MFIs where considered profitability and sustainability, asset and liability management and efficiency and productivity but ignored portfolio quality of the institutions and external factors, which are more importance. Ayelech (2010) studied the role of microfinance institution in urban poverty alleviation. Therefore, this study examined the financial performance of ADCSI and OCSSCO and their contribution for Sendafa Bekie town community development in comparison with Yeka sub city community by filling the gaps of the existing literature.

1.2. Statement of the problem

“Microfinance industry, along with all the players in it is quickly changing. Today, the microfinance industry has become both more crowded and complex” (Sima, 2013, p.4). First of all, the concept of microfinance no longer just covers microcredit only, but also includes the possibilities of saving; insurance and money transfer although microfinance institutions are characterized as one type. When it comes to financial services, there is a great variety of microfinance institutions in terms of legal, profit status, degree of sustainability and funding sources (Sima, 2013).

Sentayehu (2014) said that Ethiopian microfinance institutions are faced with many problems and challenges such as low outreach, fund shortage, limited product diversification, limited research and innovation and weak internal control system.

The situation in Sendafa Bake town is worse, where a large number of people in the town are suffering from housing problem. In this town, there is a rapid urban expansion and the size of population drastically increase from time to time due to town ward movement of the people in search of job opportunity and other services such as medical services, electricity, water, etc. Consequently, the demand for shelter increase in the town. However, the demand for shelter and service provision could not correspond with the rapid population growth in the town. Urban dwellers in the town suffer from inadequacy of important services and housing shortage (Alemayehu and Mudduri, 2015). However, the study focuses on one part of the problems such as housing problems.

Based on OSZSF (2007) report, one of the major reasons for school dropout in Towns/Districts is socioeconomic problems. In Oromiya special Zone, as in the country in general, unemployment is mainly urban and rural problem, which is caused by rapid rural- urban migration. Therefore, the number of unemployed labor force increases in urban areas of the zone, which in turn increases social insecurities and problems. Also the major development challenges identified in the zone are: low living standard; high literacy rate, high mortality and morbidity of infants and women; low pure water supply, electricity coverage, and other social services are poor; low agricultural productivity; low utilization/access to market, inputs, information, infrastructure; high school dropouts; high rural urban migration; high and uncontrolled pollution and low agricultural investment. However, the above problems are not conclusive enough when we see the problem here in Sendafa Beke town. Hence, this study tried to assess the role of microfinance institutions for community development by alleviating the above problems.

1.3. Research objective and research questions for the study

The objective of the study is to assess the financial performance of microfinance institutions and the perception of their contribution for Sendafa Bekie Town Community business development and creating better living standards in comparison to the community in Yeka sub city. Based on the above objective, this study gives special emphasize to answering the following specific research questions (RQ).

RQ1: How is the financial performance of ADCSI and OCSSCO?

RD2: What are the services provided by MFIs in Sendafa Bekie Town and Yeka Sub City?

RQ3: What is the perception of ADCSI and OCSSCO contributions for community development in the study areas?

RQ4: What are the challenges and remedies to provide microfinance services for the community development?

1.4. Scope of the study

The study is not taking into consideration all microfinance institutions in Sendafa Bekie Town Administration rather it attempt to identify the performance of two microfinance institutions and their contribution for the community development by targeting the urban community by comparing with Yeka sub city administration community.

1.5. Significance of the study

This study will provide necessary information for government officials' decision makers to design the strategy about how to improve the community living standards and business activities through microfinance services. This information may be significant for creating awareness to the community about the microfinance services and their effect on living standards and business operation in the area. The study is very important, because it is going to inform the government and the community at large on the role of MFI in the micro and small enterprise sector and individual households. Also the information may be important for further studies in the area.

1.6. Limitation of the study

Limitation is concerning on the obstacles and shortcomings of the research while conducting and after the results stated out. On this study there were some limitations which are affecting the completeness of the research findings. The limitation includes time, budget and other related factors. Since the research is conducted on two microfinance institutions to measure financial performance and on the contribution of microfinance institution for community development in Sendafa Bekie town. And also the research is conducted on two microfinance institutions it may not shows the general picture of the microfinance services and contribution for community development in the sub city administration.

1.7. Organization of the thesis

The thesis has five chapters. The first chapter is an introduction part, which contains background of the study, statement of the problem, research objective and research questions for the study, scope and significance of the study, limitation of the study and organization of the study. The second chapter deals with the literature review in which critical review of relevant previous research works in the research topic is presented. The third chapter discusses the research methodology that is used to undertake the research. It includes the research approach, target population, sample size and sampling techniques. Chapter four discusses the findings of the study with results and analysis. Finally, chapter five includes the conclusion and recommendations.

Chapter two

Literature review

This chapter presents a review of the existing knowledge on financial performance of MFIs and their contribution for the community development. The literature review is organized in three parts. The first parts deals with the theoretical review, the second parts review the empirical evidence on the financial performance of MFIs and their contribution for the community and the last part deals with the knowledge gaps of the previous studies.

2.1. Theoretical literature review

The objective of this section is to present the theoretical part of the literature relating to the financial performance of MFIs and their contribution for the community development. The concepts of microfinance, microfinance approaches, microfinance and poverty alleviation, the needs of microfinance, role of government on microfinance services and performance of MFIs are discussed in this section.

2.1.1. Concept of microfinance institutions

Different authors and organizations have defined Microfinance institutions in different ways. However, the concept or the meaning of the definitions are usually the same in which microfinance refers to the provision of financial services; primarily savings and credit to the poor and low income households that do not have access to commercial banks service.

Consultative Group to Assist the poor (CGAP), 2012) defined “microfinance” the provision of formal financial services to poor and low-income people, as well as others systematically not benefited from the financial system. As noted, “Microfinance” it is not only providing a range of credit products (for consumption, smoothing for business purposes, to fund social obligations, for emergencies, etc.) only, but also savings, money transfers, and insurances.

Asian Development Bank (ADB, 2000) defines microfinance as the provision of a broad range of financial services such as deposits, loans, money transfers, and insurance to small enterprise and households. Development practitioners, policy makers, and multilateral and bilateral lenders recognize that providing efficient microfinance services for poor segment of the population in

Asia and Pacific region for a variety of reasons: First, microfinance can be a critical element of an effective poverty reduction strategy. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smoothen their consumption, manage their risks better, build their assets gradually, develop their microenterprises, enhance their income earning capacity, and enjoy an improved quality of life. Second, without permanent access to institutional microfinance, most poor households continue to rely on meager self-finance or informal sources of microfinance, which limits their ability to actively participate in and benefit from the development opportunities. Third, microfinance can provide an effective way to assist and empower poor women, who make up a significant proportion of the poor and suffer disproportionately from poverty. Fourth, microfinance can contribute to the development of the overall financial system through integration of financial markets.

Microfinance is the provision that provides access to various financial services such as credit, savings, micro insurance, remittances, leasing to low-income clients including consumers and the self-employed, who traditionally lack access to banking and related services. Its main objective is to provide a permanent access to appropriate financial services including insurance, savings, and fund transfer. It is rather an important tool for the eradication of poverty. Poor will be able to deal with emergency and also make significant investment expenditures. As microfinance becomes more widely accepted and moves into main stream, the supply of services to poor may also increase, improving the efficiency and outreach while lowering the costs. Microfinance must involve the people themselves in examining the problems and creating solutions if it is to be sustainable with those upon whom development is targeted. To meet unsatisfied demand for financial services, a variety of MFIs has emerged over time in Africa (Sowmyan, et al., 2011 P.300). Microfinance provides financial services to those whose income is small and unstable. These people are in need of credit facilities for several reasons: First, their needs are small and arise suddenly; Second, the institutional providers of finance namely the banks demand collateral security which they cannot provide; Third, most of the time, they are in needs of funds to meet their consumption demands, for example, to meet expenses related to education, illness, funerals, weddings for which it is difficult to obtain institution finance; Fourth, for purpose of investment in income generating activities.

The popularly known institution which is Microfinance information exchange (MIX) defined the microfinance institutions as a variety of financial services that target low-income clients, particularly women. Since the clients of microfinance institutions have lower incomes or poor and often have limited access to other financial services, microfinance products tend to be for smaller monetary amounts than traditional financial services. These services not only provide micro credit service for those have lower incomes but also include loans, savings, insurance, and remittances. Micro-loans are given for a variety of purposes, frequently for micro-enterprise development. The diversity of products and services offered shows the reality that the financial needs of individuals, households and enterprises can change significantly over time, especially for those who live in poverty, which is not benefited from the formal bank. Because of these varieties of needs, and because of the industry's focus on the poor, microfinance institutions often use non-traditional methodologies, such as group lending or other forms of collateral not employed by the formal financial sector especially by bank.

Financial service for the poor, often referred to as microfinance, is a generally accepted tool for improving the economic situation of the poor in developing countries. Microfinance promises to fight against poverty by providing financial access to poor households who have long been excluded from formal banking system due to lack of capital assets for collateral for supporting loans and low repayment capacity. Microfinance cannot solve all the problems caused by poverty, but they can help put resources and power into the hands of poor and low-income people themselves, letting them make those everyday decisions and chart their own paths out of poverty. Previous studies have shown that microfinance institutions play a vital role in the economic development of many developing countries through the provision of a wide range of financial products and service to the poor, low-income households and micro and small enterprises (Mbogo and Ashika, 2011)

2.1.2. Approaches of Microfinance

The concept of microfinance has influenced by two major schools; the Institutional school and the Welfarist school (Bhatt and Tang, 2001). Institutional school focuses on developing a financially sustainable institution that is expected to serve the poor. The basic foundation of such an approach is to provide financial services to poor at an affordable cost. Numerous large-scale,

profit seeking microfinance organizations come under this approach that provides high quality financial services to the poor. This approach is expressed in nearly all literatures published by World Bank, CGAP, USAID, ACCION International and Ohio State Universities Rural Finance program.

Believers of Institutional approach are opposed to the idea of dependency on subsidies because earlier attempts on poverty alleviation through subsidies by various development agencies, NGOs and the governments of developing countries failed. The reason behind the failure included; high cost of transactions, lack of assets for the poor households, institutions lacking in saving mobilization and high level of corruption. The impact was very insignificant and that leads to dried up donor fund.

According to Institutionalists, a significant impact on poverty can be achieved only if MFIs are financially self-sufficient and independent from any subsidized funding from donor or government. Examples of MFIs operating under this approach are Bank Rakyat Indonesia and Uganda Microfinance Union etc.

On the other hand, Welfarist focuses on immediate improvement of the economic safety for the poor. They focus on providing financial services to the poorest of the poor at subsidized rate of interest. The MFIs that fall under this approach are heavily reliant on the government subsidies and grants as well as donor subsidies. Saving mobilization is not a part of the lending process in this approach. Though they understand that the long term sustainability of MFI is very important, however, they do not agree that avoiding donor subsidies completely will be required to achieve that state. Examples of MFIs operating under this approach are Grameen Bank Bangladesh, FINCA in Latin America etc.

2.1.3. Microfinance and Poverty Alleviation

Poverty is lack of access by the poor households to the assets like human capital, natural, physical, social-political, or financial (savings and access to credit) necessary for a higher standard of income or welfare. It means not having enough to feed and clothe a family, not having a school or clinic to go to; not having the land on which to grow one's food or a job to earn one's living, not having access to credit. It means insecurity, powerlessness and exclusion

of individuals, households and communities. It means susceptibility to violence, and it often implies living in marginal or fragile environments, without access to clean water or sanitation (UN, 2010).

Urban poverty is a multidimensional phenomenon. The urban poor live with many deprivations. Their daily challenges may include:

- ✚ Limited access to employment opportunities and income,
- ✚ Inadequate and insecure housing and services,
- ✚ violent and unhealthy environments,
- ✚ little or no social protection mechanisms, and
- ✚ Limited access to adequate health and education opportunities.

According to Moser (1998), describes urban poverty based on three specific characteristics of urban life: commoditization, environmental hazard, and social fragmentation. By commoditization she refers to the fact that urban households are for the most part obliged to pay for their food, shelter, transport and education than rural dwellers. Moreover, employment is frequently unavailable, insufficient or insecure while shelter is frequently illegal and insecure. The urban poor are affected by environmental problems including lack of environmental services (i.e. sanitation, water, drainage, and solid waste management), poor quality housing, overcrowding, and settlement on marginal or degraded land. These factors increase health risk to the poor. In terms of social fragmentation the vulnerability of urban dwellers may also be high because community and inter-household mechanisms for social security are less likely to operate in urban areas.

Micro finance is known as an effective tool for poverty alleviation. In poor countries like Ethiopia greater attention has been paid to poverty alleviation through microfinance, especially in the last decade. The successful use of the micro finance is considered as a victory for the disadvantaged segments. Considering the poverty alleviating impact of micro finance, currently many microfinance institutions are working throughout the developing world (Mulugeta, 2015).

Microfinance shows the capacity to help the poor to escape or alleviate poverty by lifting the liquidity constraints and enabling to take up income generating activities, which could encourage the poor people to use the services of the microfinance institutions. The ability of microfinance to empower its beneficiaries by decreasing the income poverty and through possibility to expand ones agency and economic independence could further add to the incentives to join and stay. Yet, the institutional policies and vulnerability of the poor people limit the chances of the poor to participate and maintain the banking relationship and could erode the impact or reduce the benefits that this relationship brings (Mulugeta, 2015).

2.1.4. Need of Microfinance

MFI schemes were initiated to meet different objectives. The most commonly mentioned objectives include: poverty alleviation and improved living standards, offering financing to the poor, women's empowerment, and the development of the business sector as a means of achieving high standards and reducing market failure (Bichanga 2014).

Microfinance aims at assisting communities of the economically excluded to achieve greater levels of asset creation and income security at the household and community level. Access to financial services and the subsequent transfer of financial resources to poor women enable them to become economic agents of change. Women become economically self-reliant, contribute directly to the well-being of their families, play a more active role in decision making and are able to confront systematic gender inequalities. Access to credit has been given considered a major poverty alleviation strategy in India. Micro-credit has given women in India an opportunity to become agents of change. Poor women, who are in the forefront micro-credit movement in the country use small loans to jump, start a long chain of economic activity.

Microfinance is accessing financial services in an informally formal route, in a flexible, responsive and sensitive manner which otherwise would not have been possible for the formal system for providing such services because of factors like high transaction cost emanating from the low scale of operation, high turnover of clients; frequency of transaction etc.

Credit is vital to the poor for overcoming the inevitable and common imbalance between income and expenditure. Credit is also crucial to the poor for income generating activities, like investing

in their marginal farms or other small scale self-employment ventures. Their access to formal banking channels, however, is limited due to their low resource bases as well as due to the nature of formal credit institutions. The popularity of the microfinance, self-help groups stems from widespread recognition that formal banking channels are largely ineffective in catering to the credit needs of the poor.

Tiny savings and loans are generally an unattractive business proposition for formal banking institutions. In addition to disincentives faced by the banks, there are also problem faced by the poor in accessing loans from formal banking institutions. For example, to minimize risks, banks demand, collateral security that the average micro borrower does not possess. Banks also insist on complicated procedures that are too time consuming and often too complicated for the poor and illiterate. Even in the implementation of direct lending programs formal institutions find it difficult to overcome the problem of targeting. The experience is that the rich and powerful typically manage to corner the scare loanable funds. Thus formal banking channels remain largely inaccessible to the poor in India. As a result, the poor continue to be dependent on informal sector lending, paying exorbitant rates or underselling the product and their labor power to the creditor. It was in response to these limitations in formal banking channels that micro credit mechanisms were innovated.

2.1.5. Government Role on MFIs services

Improvement in living standard of the poor people of the developing countries is achieved by enhancing their income level or purchasing power. Microfinance means program that extend small loans to very poor people for self-employment projects that generate income in allowing them to take care of themselves and their families (Microcredit Summit, 2004).

Governmental and other developmental organizations have played a vital role for impressive performance the microfinance sector in the country. Government should have greater powers to allow increased participation of MFIs in fighting against the poverty. Government play a critical role regarding with MFIs, for example setting policy for the microfinance industry, providing lump sum grants to MFIs. The significance of this can be explained that the involvement in MFIs improves the ability of poor citizens to increase their own wealth. By engaging people in this

way, poor citizens are more likely to cooperate and problem solving capacities at individual and social welfare can be enhanced.

According to Tsegaye (2005) the government of Ethiopia has taken encouraging steps by privatizing the nationalized institutions and facilitating the establishment of new organizations. One of the outcomes is the liberalization of the financial sector and the establishment of legal framework that allows the emergence of microfinance institutions to serve poor households. The government tries to solve the problem of financial access to the poor by promoting the microfinance institutions. The government believes that microfinance institutions are one of the instruments in poverty reduction.

2.1.6. Financial Performance

Within the industry, financial performance is viewed from the perspective of microfinance sustainability. Providing microfinance is a costly business due to high transaction and information costs. At present, a large number of programs still depend on subsidies to meet high cost that is, they are not yet sustainable. The sustainability of the credit programs did not receive much attention (Gwasi and Marcel, 2014).

MFIs earn financial income from loans and other financial service in the form of interest fees, penalties, and commission etc. these financial assets, such as investment income. MFIs financial activities also generate various expenses, form general operating expenses and the cost of borrowing to provisioning for the potential loss form defaulted loans. Profitable institutions earn a positive net income i.e. operating income exceeds total expenses. In order to measure the overall financial performance, financial revenue and financial expense indicators as well as returns can be compared against the institutional of equity and assets (Lafarcade et al, 2005).

Efficient and effective institutions reach number of poor people with minimum costs of delivering service. According to (Lafourcade et al, 2005) the efficiency of an MFI can be calculated in various ways; operating expense ratio, costs per borrower and costs per staff member and savers per staff members. Productive MFIs maximize services with minimal resources, including staff and funds

2.1.6.1 . Financial performance indicators

There are a variety of financial performance indicators, each of which may provide useful information to a microfinance institution (MFI) manager and different stockholders. However, the study used five financial performance indicators such as outreach, financial viability, profitability, efficiency and portfolio quality.

a) Outreach

Outreach at a 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 were previously denied access to formal financial services. Usually these persons will be the poor because they cannot provide the collateral required for accessing formal loans, are perceived as being too risky to serve, and impose high transaction costs on financial institutions because of the small size of their financial activities and transactions. Women often face greater problems than men in accessing financial services so number of women served is often measured as another criterion. Although difficult to measure, depth of poverty is a concern because the poorest of the poor face the greatest access problem. Some measure of depth of outreach is needed to evaluate how well MFIs reach the very poor (Anand and Kanwal, 2011).

b) Financial viability

Financial viability refers to the ability of the MFI to cover its costs with earned revenue. A financially viable MFI will not rely on donor funding to subsidize its operation. Common indicators here include financial spread, Operational Self Sustainability (OSS), Financial Self Sustainability (FSS) and Subsidy dependence index (Letenah, 2009).

c) Profitability

These indicators measure the MFI net income in relation to the structure of its balance sheet. Common measures include Return on Equity, Return on Assets, and Return on Business (Letenah, 2009).

d) Efficiency

Efficiency and productivity indicators are performance measures that show how well the institution is streamlining its operations. 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 are not easily manipulated by management decisions, they are more readily comparable across institutions than, say, profitability indicators such as return on equity and assets (Andinet, 2011).

e) Portfolio quality

Portfolio quality is a crucial area of analysis, since the largest source of risk for any financial institution resides in its loan portfolio. The loan portfolio is by far an MFI's largest asset 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. Fortunately, many microfinance institutions have learned how to maintain loan portfolios of very high quality. In fact, leading microfinance institutions typically better at maintaining a higher portfolio quality than their commercial bank peers in many countries.

Portfolio at Risk (also called as "PAR") is a percentage. It represents the "proportion of an MFI's total gross outstanding loan portfolio that is at (default) risk" It is perhaps the most important measure of an MFI's asset quality. Any portfolio at risk exceeding 10% should be cause of serious concern, because unlike all performances measures, portfolio at risk can be manipulated. PAR ratio measures existing degree of risk in the total microfinance portfolio at a point in time. It provides a picture of the loan portfolio which is at risk of not being paid. It measures how much you could lose if all borrowers with late payments default. A decreasing PAR signals a

healthy loan portfolio. The age (degree of lateness) of the missed payment is stated in days (Kumar, 2003).

2.2. Empirical Evidence

The objective of this section is to present the overview of studies conducted in different countries and in Ethiopia in relation to the financial performance of MFIs and their contribution for the community development. Many studies are conducted in relation to financial performance of microfinance institution and their contribution for the poor community. These studies are crucial to achieve objective of microfinance institutions such as poverty reduction, policy implementation, improving performance of the institution and other socio-economic issues. Several empirical studies have shown that microfinance reduces poverty.

There are many studies are conducted about microfinance institutions financial performance and their contribution for the communities in different countries other than Ethiopia. Some of them include Ahmed (2015) studied the Challenges Facing Microfinance Institutions in Poverty Eradication: A Case Study in Mogadishu. The study concluded that Microfinance is very important for poor people as well as businesses and it is the technique of poverty reduction, and provides diversified, dependable and timely financial services to the poor people and existing business, creates employment, encourages a new business development, and empowers women or other disadvantaged population groups. The results indicate that micro finance is important for the society but there is some challenges faced by micro finance institutions in Mogadishu the challenges include inadequate donor funding, insufficient support from governments, improper regulations and also the challenges include Lack of standardized reporting and performance monitoring system for microfinance institutions. Finally, the study found that possible ways to reduce the challenges of micro financial institutions is effective communication, adequate awareness, to get full support from local governments and international donors to micro financial institutions in Mogadishu.

Ndi gwasi (2014) investigated the impact of competition and institutional characteristics on MFIs's financial performance in Cameroon. In the study used a multiple regression model to relate financial performance (ROA) to various explanatory variables such as operational

expenses ratios, portfolio at risk, staff productivity, savings mobilization ratio, industry competition, and others. The finding reveals that operational expense ratio, portfolio at risk, and staff productivity are major determinants of performance for microfinance institutions.

Biwott and Willy (2014) studied about determinants of financial performance of microfinance institutions in Kenya. The purpose of this study was to establish some of the factors that influence the performance of microfinance. It was hypothesized that capital structure, capital adequacy, number of borrowers and branch network influence performance of MFIs in Kenya. Financial performance was mainly focused on return on assets. The study was conducted using both quantitative and qualitative approaches using descriptive research design. The study concluded that number of borrowers, capital adequacy and branch network had the greatest influence on the performance of microfinance institution.

Byamuhaya and Francis (2014) conducted the study on the role microfinance in economic empowerment of the youth (a case of Mombasa County) by using both quantitative and qualitative techniques. The study results showed that MFIs have role to play in economic empowerment of the youth. The findings also confirmed that micro financing influenced economic status, decision making power and knowledge hence was effective in graduating the poor youth and the middle class to higher living standards.

Bichanga and Njage (2014) studied on the Effects of micro finance institutions on poverty reduction in Kenya. Based on the findings, the following conclusions were made: Various strategies had been put in place by MFIs to reduce poverty such as training, localizing the business through expansion of business in remote areas to reach the poor and/or entrepreneurs, offering loans at reduced interest rates.

Olowe (2013), Empirical Study of the Impact of Microfinance Bank on Small and Medium Growth in Nigeria showed that financial services obtained from MFBs have positive significant impact on micro and small enterprises growth in Nigeria. The results also revealed that duration of loan has positive impact on SMEs growth but not statistically significant, which means that the duration of the loan is too short for any meaningful impact SMEs growth. The results also

showed that high interest rate, collateral security and frequency of loan repayment can cripple the expansion of SMEs in Nigeria.

Martha (2010) conducted the study on the role of microfinance in the socio-economic development of women in a community: a case study of mpigi town council in uganda. In the study MFIs provide services such as; credit facilities, training, supervision and monitoring, savings mobilization and banking facilities for the clients. The findings reveal that there has been an improvement of the economic status of women as a result of microfinance. The research concludes that there is a significant role played by microfinance in the socio-economic development of women in a community. This is evidenced by the benefits that the women have enjoyed as a result of their participation and access to the microfinance institution services.

Micro financing is an increasingly common weapon in the fight to reduce poverty and promote economic growth and well-being of individuals. Dupas and Robinson (2008) affirm that in Kenya, employment in small and medium enterprises has been estimated to account for more than 20% of adult employment and for 12- 14% of national Growth Domestic Product. Worldwide, these businesses are typically extremely small-scale and the majority typically starts with no employees other than the owner and very low levels of working capital (Dupas and Robinson, 2008).

Goldberg (2005) reported that the poor no longer remained as poor as a result of microfinance in Bangladesh. Zubair (2004) informed that microfinance has reduced vulnerability to domestic violence and Khandler (2003) found that microfinance helped in poverty reduction in Bangladesh. Akanji (2001) indicated that microfinance as a strategy for poverty reduction enunciated the following principles: simplify services, offer small initial loan, offer short term loan, localize services, focus on scale, short turnaround time, motivate repayment, and recognize that the poor do save.

Navajas et al, (2000) indicated that the main objective of microcredit is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions. The MSEs seek financial assistance from the MFI due to interest rate, easy loan repayment and amount offered. The loan repayment period as per the conditions of the MFIs is

usually little and the MSEs face challenges as loan beneficiaries from the MFI's. This is similar to Hiedhues (1995) who stated that accessing credit is considered to be an important factor in increasing the development of SMEs.

Many researchers conducted the studies in relation to financial performance of MFIs and their contribution for poor community in Ethiopia. For instance, Aziza(2013) studied the contribution of Microfinance based on income, living condition, asset accumulation, saving, decision making power, self-esteem, self-confidence, business management skills along with the strength and weakness of the institution among others. The finding indicates that SFPI scheme has made positive contribution to the clients in relation to 8 observed variables. Nevertheless significantly higher number of the clients complained about the institutions high interest rate, too small loan size, repayment policy, problematic group dynamics. Therefore, as a pointer to future endeavors, the current services of SFPI need to amend the loan size and reduce the interest rate in order to resolve the issues at hand and to fit the financial problem of the poor in the sector.

Bisrat (2011) studied the role of microfinance institutions (MFI's) in the alleviation of poverty in Jimma town in South Western Ethiopia. The study focus on the impact of microfinance programs on income, employment, asset, expenditure, and gender empowerment. The results show that microfinance programs have reached the poorest section of the society, but without planned targeting mechanism. Improvement is observed in employment opportunities, asset holdings and expenditure patterns. However, improvement relating to housing and other assets of higher value tends to be limited. Women are found to have more access to microfinance services than men. In addition, women clients have increased their income by the amount men clients did; but there is still huge gap between monthly income of men and women clients.

Andinet (2011) conducted the study about the institutional viability and financial performance the case of ADCSI, SFPI and Wisdom MFIs. The main objective of the study is to assess the institutional viability and financial performance and draws conclusions and makes recommendations for improving the institutional viability and financial performance of the MFIs. The study used both quantitative and qualitative methods to obtain information on institutional viability and financial performance of the three sample MFIs. The results of the study revealed

that the ADCSI and Wisdom MFIs have achieved financial self-sufficiency in the years 2005 and 2006 respectively. SFPI has not achieved the level of financial self-sufficiency at all. The trends of their financial performance demonstrate that there is a good and steady progress towards improving financial self-sufficiency in the three MFIs. The main constraints in institutional and financial sustainability of MFIs Operating in Addis Ababa are: Lack of experienced and competent board of directors, Lack of trained manpower and efficient legal system to enforce contracts. In order to improve, institutional and financial viability of microfinance institution, the need to have competent board of directors and management body is emphasized.

Ayelech (2010) studied the role of microfinance institution in urban poverty alleviation. In order to investigate the fundamental premise, this study examined empirical evidence in Addis credit and saving institution to know its contribution to poverty reduction. The contribution of microfinance is analyzed based mainly on income which in turn has effects on nutritional status, education fee, medical facilities, employment generation, and empowerment among others. The finding indicates that ADCSI scheme has made positive contribution to the clients in relation with observed variables. Though the result also implies that ADCSI gives priority to women clients on the provision of financial services; loan disbursement of men is higher than loan disbursement of women. Besides, significant number of borrowers cannot afford expenses on education, clothing they have no income generating mechanism before joining in the institution among others. Therefore, strengthening the existing operation with other support means of income generating mechanism would be appropriate to address the problem of urban poor.

Gedam (2010) studied on the role of ACSI in addressing financial needs of women clients engaged in micro and small enterprise. The objective of this study is to assess the source of startup and working capital, working capital and funds for expansion of the business during operations for women engaged in MSEs sector and to what extent ACSI helps women to address their financial needs by both quantitative and qualitative methods. The role of microfinance is analyzed based mainly on clients' profile, sources of startup capital, sources of working capital, loan methodology and loan size. The finding indicates that ACSI has made significant contribution to address working capital needs of women clients than the other sources of funds of women. However the result also indicates that ACSI has benefited men than women, the loan

size is very small to the needs of women, the procedure and regulations are very restrictive to access the loan. Therefore, modifications of loan size and flexibility in operational activities would be appropriate to address financial problem of women in the sector.

Trynos (2010) studied on the Microfinance institutions and urban housing in Addis Ababa: challenges and prospects for sustainable poverty alleviation. This study focuses on the performance of micro finance institutions (MFIs) in sustainable housing poverty reduction for the majority urban poor in Addis Ababa, the capital city of Ethiopia. The findings indicated that the loan is popular with most urban poor residents, MFIs are failing to meet the demand mainly due to lack of loanable funds. As a way forward, the government through partnerships with the private sector needs to integrate MFIs into the broader financial system so as to address the financial needs of the low income people who cannot be covered by commercial banks, particularly in accessing the money to pay the 20% down payment for condominium houses. Similarly, most MFIs operating in the city need to diversify their loan products to include housing loans to tap into the lucrative market by extending the HMF loan to their clients.

Samuel (2006) has done his research on the impact of microfinance in Addis Ababa, the case of Gasha Microfinance Institution he concluded by comparing the participants and non-participants. The significant differences in income, expenditure (business input cost and consumption expenditure) show that the changes in these variables were caused by participation in the microfinance program. On the other hand, the tests show that even though there are differences in monthly savings, asset building, nutritional intake, ability to send children to school, and access to health facilities between the two groups, they are not statistically significant.

Alemu (2006) studied that the poor have smoothed their income in the study area. However, there was fungibility in the sense that clients were using the loan for unintended purposes. Asemelash (2003) conducted the study on the impacts of microfinance institution in Ethiopian. He showed that microfinance has brought a positive impact on income, asset building, and access to schools and medical facilities in the study area. Daba (2003) studied the impact of micro financing on poverty reduction. The objective of this study is to find out whether the delivery of financial services of the MFI has made changes on living standard of the clients in eastern

wollega zone of oromiya national regional state. He used both Primary data and secondary data through both quantitative and qualitative research approach. The impacts are observed in association mainly with income, which in turn have effects on nutritional status, access to education and medical facilities, employment generation, savings and empowerment, among others. The finding indicates that the OCSSCO's micro financing scheme has made positive contribution to the clients in relation with observed variables.

Wolday (2002) studied the challenges and prospects of new product development in the microfinance industry in Ethiopia. His results showed that products of microfinance institutions were not produced based on market analysis to meet the need and preference of the clients while keeping the financial institutions profitable.

2.3. Knowledge Gaps

The existing literature reveals the existence of many knowledge gaps in respects of financial performance of microfinance institutions and their contribution for urban community development.

As per literature reviews, most of the empirical studies have been conducted through the objective of measuring financial performance MFIs by using internal and external factors that affect the profitability of the institution. Abebaw (2014) and others researcher tried to see the internal and external factor that determines the financial performance of MFIs in Ethiopia.

Aziza(2013) studied the contribution of Microfinance based on income, living condition, asset accumulation, saving, decision making power, self-esteem, self-confidence, business management skills along with the strength and weakness of the institution among others. Bisrat (2011) studied the role of microfinance institutions (MFI's) in the alleviation of poverty in Jimma town in South Western Ethiopia. The study focus on the impact of microfinance programs on income, employment, asset, expenditure, and gender empowerment. Ayelech (2010) studied the role of microfinance institution in urban poverty alleviation. The contribution of microfinance is analyzed based mainly on income which in turn has effects on nutritional status, education fee, medical facilities, employment generation, and empowerment. Samuel (2006) has done his research on the impact of microfinance in Addis Ababa, the case of Gasha Microfinance

Institution. He concluded by comparing the participants and non-participants. Daba (2003) studied the impact of micro financing on poverty reduction. Asemelash (2003) concluded on his study, the microfinance provided to the poor has brought a positive impact on the life of the clients as compared to those who do not get access to these microfinance services.

In the study they used limited financial performance indicator to measure the financial performance of microfinance institutions in Ethiopian. However there are many indicators to measure the financial performance of MFIs. Also the above studies concluded that the contribution of microfinance institution for the community by comparing the clients and non-clients and also they concluded these studies in the aspects of income, employment, asset, saving, education fees and empowerments. And also they did not consider the impact of financial performance to provide microfinance services in their studies. But there are many contributions of MFIs for the urban community to improve the living standards and business activities. For these reasons, the current study tried to fill the gaps by considering important financial performance indicators to measures the financial performance of microfinance institution by selecting OCSSCO and ADCSI by using the data from 2011 to 2015. Correspondingly the study examined the contribution of MFIs for the urban community development by comparing the Sendafa Bekie community with Yeka sub city community.

2.4. Conceptual Framework

The literature review in this study covers the previous studies that have been done on the financial performance of MFIs and their contribution for the community development. The conceptual framework shows that the contribution of MFIs for community development.

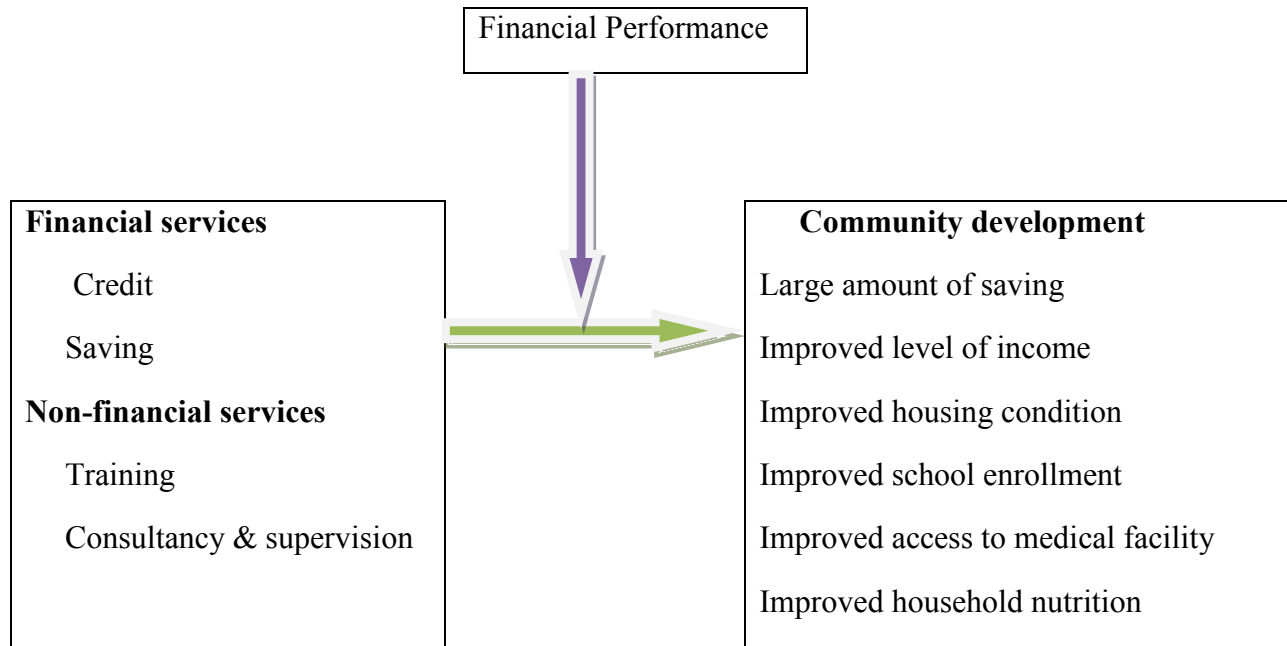


Figure 2.1: conceptual framework (Developed by researcher from literatures)

Chapter three

Research methodology

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically (Kothari, 2004). The purpose of this section is to provide the concepts of research approaches, methods, survey design and instruments, target population, sample frame, sample size and sampling techniques, documentary review, procedure of data collection and methods of data analysis to meet the research objective.

3.1. Research approaches

Research approaches are plans and the procedures for research that span the steps from broad assumptions to detailed methods of data collection, analysis, and interpretation (Creswell, 2013). In this study, the mixed research approach has been employed; it incorporates elements of both qualitative and quantitative approaches.

Mixed approach focused on collecting and analyzing both quantitative and qualitative data in a single study. Among the reasons why researchers employ a mixed methods design is to expand an understanding from one method to another, to converge or confirm findings from different data sources (Creswell, 2013).

3.2. Methods adopted: Mixed research approaches

A well-designed mixed methods assessment is able to draw on a much broader range of qualitative and quantitative tools and techniques. When used along with quantitative methods, qualitative research can help us to interpret and better understand the complex reality of a given situation and the implications of quantitative data.

Mixed method research has many benefits. One of the benefits to this method is the ability to match the purpose of the method to the need in the study. Some have asked whether this approach to research is helpful or beneficial. “We end with the assumption that the combination of methods provides a better understanding than either the quantitative or qualitative method alone,” (Creswell, 2013). The advantage of a mixed methods approach is that it balances

efficient data collection and analysis with data. The quantitative data quickly and efficiently captures potentially large amounts of data from large groups of people. The qualitative data provides the appropriate information and facilitates understanding and interpretation of the quantitative data.

In mixed approach, different types of collection of both quantitative and qualitative data are applied to develop a better understanding on the research problem. This study uses the survey research design in order to collect the quantitative data and generalize the results of the population by collecting the detail assessments from participants. In addition to this the study uses the documentary reviews and interviews for the purpose of the secondary quantitative data and qualitative data respectively.

The data is collected based on the sequential explanatory strategy. It is characterized by collecting the quantitative data followed by the collection of qualitative data. Explanatory sequential mixed methods is one in which the researcher first conducts quantitative research, analyzes the results and then builds on the results to explain them in more detail with qualitative research (Creswell, 2013).

3.2.1. Quantitative research method aspect

Quantitative research is the systematic and scientific investigation of quantitative properties and phenomena and their relationship. Quantitative research favors methods such as experiments and surveys, and will attempt to test hypotheses or statements with a view to infer from the particular to the general. This approach typically concentrates on measuring or counting and involves collecting and analyzing numerical data and applying statistical tests. Well-formulated quantitative research has a significant contribution of generalizing of the broader population. This leads to consistent procedures in sample selection, instrument design, implementation, and analysis. This consistency in turn increases the reliability of procedures, and the reliability of findings helpful to mitigate interviewee biases.

Quantitative research methods are characterized by the collection of information which can be analyzed numerically, the results of which are typically presented using statistics, tables and graphs. The aim of the quantitative research method is to test pre-determined objective and

produce generalizable results. The objective of this section is to discuss about the survey design, Target population, Sampling frame, sample size and methods of selecting sample, survey instrument and documentary reviews.

3.2.1.1. Survey design

A survey design provides a plan for a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population (Creswell, 2013). From sample results, the researcher generalizes or makes claims about the population.

Survey design is used to identifying attributes of a large population from small group of individual. It is very important to minimize costs and to accelerate the data collection process. Surveys gather data at a particular point in time with the intention of describing the nature of existing conditions or identifying standards against which existing conditions can be compared or determining the relationships that exist between specific events. They may vary in their levels of complexity and in terms of their scope. Typically, survey method is used to scan a wide field of issues, populations, programs etc. in order to measure or describe any generalized features. It is useful in that it usually gathers data on a one-shot basis and hence is economical and efficient, represents a wide target population, generates numerical data, provides descriptive, inferential and explanatory information, manipulates key factors and variables to derive frequencies and presents material which is uncluttered by specific contextual factors.

The principal advantage of survey studies is that they provide information on large groups of people, with very little effort and in a cost effective manner. It is efficient way to collect information about a large group of people, Easy to administer and Can be tailored exactly to the phenomena you wish to study.

Target population, Sampling frame, sample size and sampling techniques

In the survey research, a population refers to all members of specific groups. There are six microfinance institutions in Sendafa Beke town administration that provide microfinance services for the community. However, the study incorporates two microfinance institutions such

as OCSSCO and ADCSI. OCSSCO has 541 clients in Sendafa Bekie town. Also ADCSI has 638 clients in Sendafa Bekie town and more 20,000 clients and 13 branches in Yeka sub city.

The lists of clients in the study area are generated from the two microfinance institution branches from Sendafa Bekie town and Yeka sub city. The list of clients will be selected randomly. A sampling frame is prepared by combining the lists of the clients in the two microfinance institutions having a total population size of 1,179 clients in Sendafa Bekie town.

In survey research, the sample is studied and the findings are generalized to the population. Sampling means selecting a group that represents the entire population. Sampling is considered to reduce cost and resources that have been used in studying the entire population. To make the study manageable and to evaluate the problems in detail, the study incorporates 15% of the total peoples who have access the microfinance services from OCCSSCO and ADCSI in Sendafa Bekie town. The study is used one sub branch of microfinance institution in Yeka sub city by selecting randomly for the purpose of comparison. The criteria to select the above two microfinance institutions include size of clients and age of the branches in the Sendafa Bekie town. The researcher chose 98 clients from ADCSI and 81 clients from OCSSCO through random sampling technique in Sendafa Bekie town and 60 clients from ADCSI wereda 11 branches through random sampling for the purpose of comparison. From the totality of 1,179 clients in the frame, a sample of 176 clients is randomly selected using random table.

Random sampling is a procedure in quantitative research for selecting participants. It means that each individual has an equal probability of being selected from the population, ensuring that the sample will be representative of the population (Creswell, 2013). Respondents selected randomly from clients of ADCSI and OCSSCO in Sendafa Bekie town and Yeka sub city administration wereda 11.

Survey instruments

To acquire significant information that is related to the objective of the study and to ensure the validity of the study findings, I used questioner methods of the survey study. The questionnaire is designed to collect information from the clients of the microfinance institutions by taking sample clients of Sendafa Bekie town and Yeka sub city wereda 11 branches. The main objective of questionnaire is to collect data from the clients about the contribution of microfinance

institutions for community development. It is contained both close ended and open ended questions that indicate about the contribution of microfinance institution for the community development in the study area.

It uses to collect information from ADCSI and OCSSCO beneficiaries in Sendafa Bekie town and Yeka sub city woreda 11. For this study structured questionnaires is developed to obtaining quantitative data about the contribution of MFIs for the community development in aspects of living standards and business activities. After all the necessary data are collected, they organized and analyzed in order to get a better conclusion. Therefore, the quantitative data collected by using questioners analyzed through descriptive statistics using percentage and tables.

3.2.1.2. Document review

This method refers to the review of existing information, and in the quantitative context may involve the manipulation of statistical data. In order to collect secondary data, the researcher was used different documents that related to the study. This documentation includes collecting information and data from existing surveys, reports and documents of ADCSI and OCSSCO, AMFIs and NBE as well as any relevant publications of the Sendafa Bekie town administration different sectors. In addition to this the data is collected from different manuals, from proclamation, journals, books and different websites. This study mainly used the ADCSI and OCSSCO audited annual financial reports. The collected data analyzed and interpreted through trend and ratio analysis methods by using percentage and tables.

3.2.2. Qualitative method aspect

The qualitative aspects of this study incorporates the activity of interviews with the ADCSI Sendafa Bekie town and Yeka sub city woreda 11 branches and OCSSCO Sendafa branch managers and credit officers and Sendafa Bekie town administration government officials. For the purpose of this study, the interview questionnaire employed to collect the qualitative data to understand the contribution of MFIs in the study area. Specifically, the aim of the qualitative aspects of this study is to investigate the contribution of MFIs for the community development and to examine the role of MFIs and government sectors on the microfinance services. Because, the institutions are vital contributors who directly related to improve the microfinance services

that provide to the community in the study area. And also the government sectors have the contribution to improve the living standards of the community and business activities by using MFIs service. To collect the qualitative data, the researcher used unstructured interviews which involve a number of open ended questions to meet the research objective.

The study used 3 branch managers, 3 credit officers and 2 government officials through purposive sampling method to gather qualitative data. In order to perform purposeful sampling, the study is focused on the selected MFI branches manager and credit officers and government officials of different sectors who have responsibility on decision making in the study area. The data collected from interviews is treated qualitatively in relation to the objective of the study.

3.3. Research quality issues

Various techniques were employed to ensure data reliability and validity.

Reliability: In order to collect reliable data, the researcher designed the interview guides and questionnaires through an explained procedure to enhance data quality. Also quotes from interview and statement from questionnaires were used as references to ensure reliability. The researcher has used checklist of questions when making personal interviews with respondents so as to achieve data consistency and completeness.

Validity: To ensure validity the study has applied the triangulation technique by using questionnaire, interviews and secondary data sources. In addition, data collection instruments were presented and refined to ensure lucidity of contents in context of aim of each question. Whereas the quantitative data collection instruments focus on objective responses, qualitative data collection instruments are designed in such a way that they measure attitudes and opinions of respondents to the maximum degree possible. The data scanning and scrutiny technique has also been employed from available questionnaires from respondents to examine and validate the survey instrument so as to ensure content validity and reliability.

3.4. Ethical considerations

Ethical consideration is a very significant for collecting necessary and required data in which the research is carried out. Many ethical normative have performed before the actual data was

collected. For better accessibility of the data from the institutions and the clients researcher has informed about the purpose of the study, the confidentiality of the data and information given to the researcher; this is all about getting oral consent of the data. Generally, this ethical consideration is critical to get reliable and timely data from both primary as well as secondary data.

Chapter four

4. Results and analysis

This chapter deals with data presentation and analysis of the collected data from primary and secondary sources based on the arrangement of the research questions that guide this study. The research questions include:

RQ1: How is the financial performance of ADCSI and OCSSCO?

RD2: What are the services provided by MFIs in Sendafa Bekie Town and Yeka Sub City?

RQ3: What is the perception of ADCSI and OCSSCO contributions for community development in the study areas?

RQ4: What are the challenges and remedies to provide microfinance services for the community development?

As it was discussed in the methodology part, data collected through documentary review, questionnaire and interview will be systematically presented, analyzed and discussed in the following sections.

4.1. Results

In this section an attempt has been made to discuss about financial performance of ADCSI and OCSSCO, the services provided by MFIs and the contribution of MFIs for community development in Sendafa Bekie town and Yeka sub city. The first section deals about the document analysis results. The second section deals with the survey results by using descriptive statistics and the third section deals with the qualitative data or interview results.

4.1.1. Results of data obtained from ADCSI and OCSSCO

In this section the study presents the results of financial performance of ADCSI and OCSSCO from the year 2011 to 2015. In the study outreach, financial sustainability, Profitability,

Efficiency and Portfolio /asset/ quality are the main focus to measure the financial performance of the institutions.

Table 4.1 Outreach

| Number of active borrowers | | | | | |
|----------------------------|---------|---------|---------|---------|---------|
| Year | 2011 | 2012 | 2013 | 2014 | 2015 |
| ADCSI | 140,546 | 184,499 | 230,839 | 257,066 | 276,075 |
| OCSSCO | 370,982 | 533,502 | 775,161 | 908,246 | 987,828 |

Source: Researcher's own computation from financial statements

The number of active borrowers who get access to loan service or who borrow money from ADCSI in the year 2011 and 2012 is 140,546 and 184,499 and also in the year 2013 is 230,839. Numbers of active borrowers who get access to loan service or who borrow money from ADCSI in the years 2014 and 2015 are 257,066 and 276,075 respectively.

The number of active borrowers who get access to loan service or who borrow money from OCSSCO from year 2011 to 2015 shows increasing trend, such as 370,982, 533,502, 775,161, 987,246 and 908,828 respectively.

Table 4.2: Financial sustainability

| Year | 2011 | 2012 | 2013 | 2014 | 2015 |
|----------------|--------|--------|---------|---------|------|
| OSS for ADCSI | 90.5% | 91.20% | 139.39% | 109.55% | 171% |
| OSS for OCSSCO | 103.2% | 144% | 118% | 102% | 152% |

Source: Researcher's own computation from financial statements

As per the table 4.2, indicated that operational self-sufficiency of ADCSI in the years 2013, 2014 and 2015 is recording above 100% (139.39%, 109.55% and 171% respectively). Whereas, for the

years 2011 and 2012 where it is recording 90.5% and 91.2% respectively. The operational self sufficiency of OCSSCO was 103.2%, 144%, 118%, 102% and 152% from the years 2011 to 2015 respectively.

Table 4.3: Return on assets (ROA)

| Year | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------|-------|-------|-------|------|------|
| ADCSI | 0.56% | 0.6% | 2% | 2.3% | 1% |
| OCSSCO | 1.6% | 2.24% | 1.96% | 2.1% | 1.2% |

Source: Researcher's own computation from financial statements

As it can be seen from table 4.3, ROA of ADCSI during the years of 2011, 2012, 2013 and 2014 was 0.56%, 0.6%, 2% and 2.3% respectively. However, the ROA decrease to 1% in the year 2015. As it can be shown in the above table 4.3, the return on asset ratio of OCSSCO is 1.6% in the year 2011. In year 2012, OCSSCO was measured by a return on assets of 2.24% as compared to ROA of 1.96% in year 2013. Also in the year 2014 was measured by a return on assets of 2.1% as compared to ROA of 1.2% in year 2015. .

Table 4.4: Return on equity (ROE)

| Year | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------|------|-------|-------|-------|-------|
| ADCSI | 1.3% | 1.7% | 7.87% | 9.6% | 9.98% |
| OCSSCO | 5% | 8.38% | 9.3% | 9.96% | 10.1% |

Source: Researcher's own computation from financial statements

The above table 4.4 shows that OCSSCO and ADCSI registered 5% and 1.3% of ROE in the year 2011. In year 2012, OCSSCO was measured by a return on equity (ROE) of 8.38% as compared to ROE of 9.3% in year 2013. Similarly, ADCSI's return on equity (ROE) of 1.7% in the year 2012 as compared ROE of 7.87% in the year 2013. Both OCSSCO and ADCSI's indicated that increased in year 2015 of 10.1% and 9.98% from 9.96% and 9.6% in the year 2014 respectively.

Table 4.5: Cost per loan or borrower ratio

| Year | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------|------|--------|--------|--------|-------|
| ADCSI | 7.4% | 9.93% | 16.80% | 27.42% | 16% |
| OCSSCO | 9.3% | 11.65% | 12.79% | 18.77% | 11.2% |

Source: Researcher’s own computation from financial statements

As indicated in the above table 4.5, the OCSSCO and ADCSI incurred 9.3% and 7.4% cost for each borrower for providing its services for its clients in the year 2011. OCSSCO incurred cost of 11.65%, 12.79% and 18.77% for the years of 2012, 2013 and 2014 respectively. However, the cost per borrower ratio is decreased to 11.2% in the year 2015. Also during the years of 2012, 2013 and 2014 the cost per borrower ratio of ADCSI shows 9.93%, 16.80% and 27.42% respectively. However, it decreased to 16% in the year 2015.

Table 4.6: Administrative efficiency/operating cost ratio

| Year | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------|-------|-------|--------|--------|------|
| ADCSI | 11% | 9.80% | 16.80% | 27.40% | 16% |
| OCSSCO | 4.03% | 3.56% | 4.20% | 5.40% | 3% |

Source: Researcher’s own computation from financial statements

Table 4.6 shows that operating cost ratio of ADCSI is decreased in the 2012 when compared in the previous year 2011 which mean from 11% to 9.8%. However, the operational cost of the institution is increased to 16.8% and 27.4% in the years of 2013 and 2014 respectively. In the year 2015 the operational cost is decreased to 16%. The operational cost of OCSSCO 4.03%, 3.56%, 4.20%, 5.40% and 3% for five consecutive years from the year 2011 to 2015.

Table 4.7: Portfolio at risk

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------|------|------|-------|-------|-------|
| ADCSI | 1.2% | 1.0% | 2.57% | 3.90% | 3.88% |
| OCSSCO | 3.1% | 4% | 2.77% | 4.67% | 3.33% |

Source: Researcher’s own computation from financial statements

The study reveal that of PAR > 90 Days is 4% for OCSSCO in the year 2012. The portfolio risk decreases from 4% in the year 2012 to 2.77% in the year 2013. However, the PAR value for the

year 2014 is increased to 4.67% when compared with the previous years. In the year 2015, the PAR value for OCSSCO is 3.33%.

And also the above results indicate that the portfolio at risk for ADCSI from the year 2012 to 2014 increased, like in the year 2012 1%, in the year 2013 2.57% and in the year 2014 3.9%. However, the portfolio at risk in the year 2015 was 3.88%.

4.1.2. Survey results

This section presents the results of the study in achieving the objectives aimed to address based on the methodology discussed in chapter three above. After data collection process is completed, the researcher conducted classifying and organizing the collected data. Practically, on this section, the researcher emphasize on showing the services and products of MFIs, the contribution of MFIs for Sendafa Bekie community development and the challenges of MFIs to provide services to the communities and the remedies for the problems.

4.1.2.1. Respondents' profile

Table 4.8: What is your Gender?

| | Sendafa Bekie town | | Yeka sub city | |
|--------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Male | 68 | 38.7 | 14 | 22.6 |
| Female | 108 | 61.3 | 46 | 77.4 |
| Total | 176 | 100.0 | 60 | 100.0 |

Source: - Survey data, 2016

As disclosed in table 4.8 above the total sample clients of ADCSI and OCSSCO in Sendafa Bekie town, 61.7% of the respondents are females and 38.7% of them are males. Similarly, 77.4% of the respondents are female and 22.6% of them are male in Yeka sub city.

Table 4.9: What is your age?

| | Sendafa Bekie town | | Yeka sub city | |
|--------------------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Less than 25 years | 24 | 13.6 | 10 | 16.7 |
| 25-40 years | 145 | 82.4 | 44 | 73.3 |
| More than 40 years | 7 | 4.0 | 6 | 10.0 |
| Total | 176 | 100.0 | 60 | 100.0 |

Source: - Survey data, 2016

The above table 4.9 shows that 13.6% of the respondents fall in the age group of less than 25 year; the age between 25-40 years of age found 82.4% and the rest 4% of the respondents are more than 40 years of age in Sendafa Bekie town. Also in Yeka sub city as indicated in the table 4.9, 16.7% of the respondents fall in the age group of less than 25 year; the age between 25-40 years of age found 73.3% and the rest 10% of the respondents are more than 40 years of age.

Table 4.10: What is your marital status?

| | Sendafa Bekie town | | Yeka sub city | |
|-----------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Married | 103 | 58.9 | 34 | 56.7 |
| Separated | 35 | 20.0 | 10 | 16.7 |
| Single | 37 | 21.1 | 16 | 26.7 |
| Total | 175 | 100.0 | 60 | 100.0 |

Source: - Survey data, 2016

Table 4.10 shows that, from the total respondent of Sendafa Bekie town, 58.9% of the respondents are married, 20.0% of respondents are separated and the rest 21.0% of them are single while, 56.7% of the Yeka sub city respondents are married, 16.7% of the respondents are separated and 26.7% of the respondents are single.

Table 4.11: What is your Level of education

| | Sendafa Bekie town | | Yeka sub city | |
|---------------------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Read and write | 28 | 15.9 | 10 | 16.7 |
| Primary education | 32 | 18.2 | 13 | 21.7 |
| Secondary education | 29 | 16.5 | 10 | 16.7 |
| Diploma | 36 | 20.5 | 10 | 16.7 |
| Degree | 45 | 25.6 | 15 | 25.0 |
| Others | 6 | 3.4 | 2 | 3.3 |
| Total | 176 | 100.0 | 60 | 100.0 |

Source: - Survey data, 2016

The table 4.11 shows that the distribution of level of education of the respondents. The figures mainly tells, among the clients included in the research 18.2% of the respondents who are accomplished their primary education, 16.5% of the respondents who are accomplished their secondary education levels, 20.5% of the sampled are certified by diploma, 25.6% of the respondents are degree holder, 15.9% of the respondents can read and write, 3.4% of the respondents grouped the education level under others. As indicated above, the level of education of the clients in Sendafa Bekie town and Yeka sub city almost the same.

Table 4.12: How many family members do you have before and after the loan?

| | Sendafa Bekie town | | Yeka sub city | |
|---------------------|--------------------|---------------|----------------|---------------|
| | Percent before | Percent after | Percent before | Percent after |
| Less than 3 peoples | 32.3 | 35.5 | 40.0 | 28.3 |
| 3-5 peoples | 45.2 | 45.2 | 35.0 | 48.3 |
| More than 5 peoples | 22.6 | 19.4 | 25.0 | 23.3 |

Source: - Survey data, 2016

With respect to family size, 32.3% of the respondents have the family size of less than 3 , 45.2% of the respondents have a family size of 3-5 and 22.6% of the respondents have a family size of more than 5 before they join the microfinance institutions. And also after they join the

microfinance institutions the 35.5% of the respondents have a family size of less than 3, 45.2% of the respondents have a family size of 3-5 and 19.4% of the respondents have a family size of more than 5. However, according to table 4.12 in Yeka sub city, 40% of the respondents have family size of less than 3 before they join the microfinance institutions while 28.3% of the respondents have a family size of less than 3. In addition, 35.0% of the respondents reported that they have family size of 3-5 before they join the microfinance institution services while 48.3% of the respondents reported that they have a family size of 3-5 after they join the microfinance programs.

Table 4.13: What is your occupation?

| | Sendafa Bekie town | | Yeka sub city | |
|---------------------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Self employed | 118 | 67.0 | 48 | 80.0 |
| Government employee | 58 | 33.0 | 12 | 20.0 |
| Total | 176 | 100.0 | 60 | 100.0 |

Source: - Survey data, 2016

What is observed from the figures in the table 4.13 is that 67% of the respondents from the sample are self-employed and 33% of the respondents are government employed in Sendafa Bekie town. Whereas, 80% of the respondents reported that they are self-employed and the rest 20% of the respondents reported that they are government employed in Yeka sub city.

Table 4.14: Did you have a source of income for your household before joining the MFIs program?

| | Sendafa Bekie town | | Yeka sub city | |
|-------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Yes | 120 | 70.2 | 41 | 68.3 |
| No | 51 | 29.8 | 19 | 31.7 |
| Total | 171 | 100.0 | 60 | 100.0 |

Source: Survey data, 2016

As it can be shown in the table 4.14, 70.2% of the respondents have source of income before they join the microfinance institutions services in Sendafa Bekie town. Similarly the result showed that 68.3% of the respondents reported that they have a source of income before they join the microfinance program while the rest 31.7% of the respondents said that they have no any sources of income before they join the microfinance program in Yeka sub city.

Table 4.15: What is your average monthly income before join to MFIs?

| | Sendafa Bekie town | | Yeka sub city | |
|--------------------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Below ETB 500 | 42 | 34.7 | 7 | 13.7 |
| ETB 500-1000 | 6 | 5.0 | 4 | 7.8 |
| ETB 1000-1500 | 6 | 5.0 | 6 | 11.8 |
| ETB 1500-2000 | 33 | 27.3 | 8 | 15.7 |
| ETB 2000-3000 | 28 | 23.1 | 8 | 15.7 |
| More than ETB 3000 | 6 | 5.0 | 18 | 35.3 |
| Total | 121 | 100.0 | 51 | 100.0 |

Source: Survey data, 2016

Also as it can be shown in table 4.15, 34.7% of the respondents have monthly income below ETB 500, 5% of the respondents have monthly income range from ETB 500-1000, 5% of the respondents have monthly income range from ETB 1000-1500, 27.3% of the respondents have average monthly income range from ETB 1500-2000, 23.1% of the respondents have monthly income range from ETB 2000-3000 and 5% of the respondents have monthly income more than ETB 3000. In addition, the table showed that, 13.7% of the respondents reported that they have average monthly income below ETB 500, 7.8% of the respondents reported that they have average monthly income between ETB 500-1000, 11.8% of the respondents reported that they have average monthly income between ETB 1000-1500, 15.7% of the respondents reported that they have average monthly income between ETB 1500-2000, 15.7% of the respondents reported

that they have average monthly income between ETB 2000-3000 and the rest 35.5% of the clients have average monthly income more than ETB 3000 in Yeka sub city.

4.1.2.2. products provided by MFIs

Table 4.16: What types of MFIs products are available to you?

| | Sendafa Bekie town | Yeka sub city |
|-----------|--------------------|---------------|
| | Percent | Percent |
| Credit | 19.4 | 16.1 |
| Transfers | 3.2 | 6.5 |
| Saving | 96 | 83 |
| Payments | 12.9 | 3.2 |
| Others | 19.4 | 22.6 |

Source: Survey data, 2016

The above table shows about the microfinance products provided in the areas. As indicated in table 4.16 above, in Sendafa Bekie town, 19.4 % of the respondents received loans from ADCSI and OCSSCO, 3.2% of the respondents used microfinance institutions to transfer their money to others, 96% of the respondents use microfinance institution to save their money, 12.9% of the respondents“ uses microfinance institution to receive money which is transfer from others and 19.4% of the respondents used the microfinance for other purposes. In addition, as indicated in table 4.16, in Yeka sub city, 16.1% of the respondents reported that they access the credit from ADCSI, 6.5% of the respondents reported that they uses the microfinance to transfer their money to others, 83 % of the respondents reported that they use the institution to save their money, 3.2% of the respondents reported that they received money transferred from others and the rest 22.6% of the respondents reported that they use microfinance programs for other purposes like insurance, paid salary etc.

Table 4.17: Did you have any source of credit other than MFIs?

| | Percent | Source of credit | Iddir | Friends/relatives | Banks | Others |
|-----|---------|------------------|-------|-------------------|-------|--------|
| Yes | 25.58 | | | | | |
| No | 74.42 | Percent | 25 | 25 | 37.5 | 12.5 |

Source: Survey data, 2016

Table 4.17: Did you have any source of credit other than MFIs?

| | Percent | Source of credit | Iddir | Friends/relatives | Banks | others |
|-----|---------|------------------|-------|-------------------|-------|--------|
| Yes | 36.2 | | | | | |
| No | 62.1 | Percent | 8.7 | 26.1 | 47.8 | 17.4 |

Source: Survey data, 2016

The above table 4.17 indicates that 25.58% of the respondents have other source of credit to improve their living standards or to operate their business and 74.42% of the respondents they have no other sources of credit. From the clients who have other sources of credit, 37.5% of the clients respondents received loan from banks, 50% of the clients respondents used iddir and friends/relatives and 12.5% of the client's respondents used other sources of credit like ikub in Sendafa Bekie town.

As indicated in the table 4.17, 36.2% of the respondents reported that they have other source of credit for their business or for household purposes and 62.1% of the respondents reported that they have no any sources of credit. Similarly 8.7% of the respondents received credit from iddir, 26.1% of the respondents received loans from friend/relatives, 47.8 % of the respondents received credit from banks, and 17.4% of the respondents received credit from other sources Yeka sub city.

Table 4.18: For what purpose did you receive loan from MFIs?

| | Sendafa Bekie town | | Yeka sub city | |
|--------------------------------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| To start a business | 70 | 40.5 | 27 | 47.4 |
| To pay for health purpose | 5 | 2.9 | 2 | 3.5 |
| Expand existing business | 75 | 43.4 | 24 | 42.1 |
| To serve as housekeeping money | 17 | 9.8 | 3 | 5.3 |
| Others | 6 | 3.5 | 1 | 1.8 |
| Total | 173 | 100.0 | 57 | 100.0 |

Source: Survey data, 2016

The above table 4.18 shows that 40.5% of the respondents received loans from microfinance institutions to start the new business, 2.9% of the respondent replied that they used the borrowed money to pay for health purpose, 43.4% of the respondents said that they used the borrowed money to expand the existing business, 9.8% of the respondents borrowed money from microfinance institutions for housekeeping purpose and 3.5% of the respondents received loans for other purposes. Whereas, 47.4% of the respondents replied that they received loans from ADCSI to start a new business, 3.5% of the respondents reported that they borrowed money to pay for health purpose, 42.1% of the respondents replied that they received the loan to expand the existing business, 5.3% of the respondents received loans for housekeeping purposes and the rest 1.8% of the respondents received loan for other purposes in Yeka sub city.

Table 4.19: Did you spend the total amount of borrowed money for intended purposes?

| | Percent | | Non-intended purposes | Percent | |
|-----|---------------|---------------|---|---------------|---------------|
| | Sendafa Bekie | Yeka sub city | | Sendafa Bekie | Yeka sub city |
| Yes | 78.6 | 77.2 | The loan amount was not enough for the intended purpose | 16.7 | 25 |
| No | 21.4 | 22.8 | Market problem | 66.7 | 52.8 |
| | | | To repay another loan | 16.7 | 22.2 |

Source: Survey data, 2016

As indicated in the above table 4.19, in Sendafa Bekie town, 78.6% of the respondents used the borrowed money for the intended purpose and 21.4% of the respondents used the borrowed money for non-intended purpose. Whereas, in Yeka sub city, 77.2% of the respondents used the borrowed money for the intended purpose while 21.4% of the respondents used the borrowed money for non-intended purpose.

Table 4.20: What is your average monthly income after the loan?

| | Sendafa Bekie town | | Yeka sub city | |
|--------------------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Below ETB 500 | 61 | 37.2 | 10 | 17.2 |
| ETB 500-1000 | 17 | 10.4 | 10 | 17.2 |
| ETB 1000-1500 | 17 | 10.4 | 10 | 17.2 |
| ETB 1500-2000 | 23 | 14.0 | 8 | 13.8 |
| ETB 2000-3000 | 17 | 10.4 | 6 | 10.3 |
| More than ETB 3000 | 29 | 17.7 | 14 | 24.1 |
| Total | 164 | 100.0 | 58 | 100.0 |

Source: Survey data, 2016

Table 4.20 shows that in Sendafa Bekie town, after they joining ADCSI and OCSSCO, 37.2% of the respondents have acquired less than ETB 500 while 10.4% have between ETB 500-1000. 10.4% of the of respondents have between ETB 1000-1500, 14% of the respondents reported that they have ETB 1500-2000 average monthly income, 10.4% of the respondents replied that they have Birr 2000-3000 average monthly income While 17.7% of the client respondents has average monthly income more than ETB 3000. However, in Yeka sub city, the 51.6% of the respondents have an average monthly income less than ETB 1500. However, 24.1% of the respondent reported that they have average monthly income of more than ETB 3000.

Table 4.21: Is there any training provided by the microfinance institution to assist your business and what types of training provided to you?

| Training | Percent | | Types of training | | Saving | Loan usage | Others |
|----------|---------|------|-------------------|---------|--------|------------|--------|
| | Sendafa | Yeka | | | | | |
| Yes | 58.6 | 68.3 | Percent | Sendafa | 72.2 | 16.7 | 11.1 |
| No | 41.4 | 31.7 | | Yeka | 77.8 | 11.1 | 11.1 |

Source: Survey data, 2016

The above table shows that 58.6% of the clients“ access training from microfinance institutions. From these clients, 72.2% of the clients access training about saving, 16.7% of the clients“ access training about loan usage and 11.1% of the clients“ access training about others in Sendafa Bekie town. Also the table indicates; in Yeka sub city the microfinance institution provide training for 68.3% of the clients. The institution provides training about saving for 77.8%, about loan usage for 11.1% and about other things for 11.1%.

Table 4.22: The amount of credit approved to you is sufficient to run your business?

| | Sendafa Bekie town | | Yeka sub city | |
|-------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Yes | 68 | 40.0 | 24 | 40.7 |
| No | 102 | 60.0 | 35 | 59.3 |
| Total | 170 | 100.0 | 59 | 100.0 |

Source: Survey data, 2016

The table 4.22 shows that 40% of the respondents responded that the loan that is allowed to them is enough to run their business to the local community while 60% of the respondents responded that the loans granted to the clients are not enough to run their business of the community Sendafa Bekie town. On the other hand, 40.7% of the respondents reported that the loan offered by the institution to the clients is sufficient to run their business while 59.3% of the respondents reported that the loan offered by the institution to the clients is not sufficient to operate their business in Yeka sub city.

Table 4.23: The amount of credit approved to you is sufficient to improve your living standards?

| | Sendafa Bekie town | | Yeka sub city | |
|-------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Yes | 80 | 46.7 | 29 | 48.3 |
| No | 91 | 53.3 | 31 | 51.7 |
| Total | 171 | 100.0 | 60 | 100.0 |

Source: Survey data, 2016

As indicated in table 4.23, 46.7% of the respondents improve their living standards because of the loans offered from ADCSI and OCSSCO while 53.3% of the respondents replied that the living standard is not improved because of the loans offered from ADCSI and OCSSCO. Similarly 48.3% of the respondents replied that the loan permitted to the clients is sufficient to change their living standards while 51.7% of the respondents reported that the loan permitted to the clients is not sufficient to improve the living standards of the communities in Yeka sub city.

4.1.2.3. General information about the contribution of MFIs

Table 4.24: How do you evaluate the women participation of MFIs Services?

| | Sendafa Bekie town | | Yeka sub city | |
|-----------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Very high | 40 | 22.6 | 9 | 15.0 |
| High | 40 | 22.6 | 24 | 40.0 |
| Fair | 56 | 32.3 | 19 | 31.7 |
| Low | 40 | 22.6 | 8 | 13.3 |
| Very low | 0 | 0 | 0 | 0 |
| Total | 176 | 100.0 | 60 | 100.0 |

Source: survey data, 2016

Table 4.24 shows, 22.6% of the respondents reported that the participation of women in microfinance services is very high and also 22.6% of the respondents said that the participation of women is high. 32.3% of the respondents replied that the participation of women in MFIs is fair while 22.6% of the respondent replied that the participation of women in microfinance institution is low in Sendafa Bekie town. Also the table indicates that, 15% of the respondents reported that the women participation in microfinance services is very high and also 40% of the respondents said that the women participation is high. 31.7% of the respondents replied that the women participation in MFIs is fair while 13.3% of the respondent replied that the participation of women in microfinance institution is low in Yeka sub city.

Table 4.25: Do you use hired labor for your business?

| | Sendafa Bekie town | | Yeka sub city | |
|-------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Yes | 57 | 33.9 | 22 | 37.3 |
| No | 111 | 66.1 | 37 | 62.7 |
| Total | 168 | 100.0 | 59 | 100.0 |

Source: Survey data, 2016

As it has been shown in table 4.25, the majority of respondents that is 66.1% reported that they did not use hired labor to run their business while 33.9 % of the respondents reported that they use hired labor to run their business. From 33.9%, as indicated in table 4.26 below, 60.7% of the respondents spend the cost less than ETB 500 for labors, 19.6% of the respondents spend the cost between ETB 1001-1500 and 19.6% of the respondents spend cost more than ETB 1500. As indicated in the above table 4.25, majority of the clients business is operated by their own in Yeka sub city as Sendafa Bekie town.

Table 4.26: What is the average monthly cost of labor for your business?

| | Frequency | Percent |
|---------------------|-----------|---------|
| Below ETB 500 | 34 | 60.7 |
| ETB 1001-1500 | 11 | 19.6 |
| More than birr 1501 | 11 | 19.6 |
| Total | 56 | 100.0 |

Source: Survey data, 2016

Table 4.27: After joining the MFIs program, do you think the amount of income is increased?

| | Sendafa Bekie town | | | Yeka sub city | | |
|-------|--------------------|---------|---------------|---------------|---------|---------------|
| | Frequency | Percent | Valid Percent | Frequency | Percent | Valid Percent |
| Yes | 136 | 77.3 | 80.0 | 49 | 81.7 | 81.7 |
| No | 34 | 19.3 | 20.0 | 11 | 18.3 | 18.3 |
| Total | 170 | 96.6 | 100.0 | 60 | 100.0 | 100.0 |

Source: survey data, 2016

As indicated in the table 4.27, 80% of the respondent income is increased after they join the microfinance institutions while the rest 20% of the respondent said that the amount of income is not increased. On the other hand, 81.7% of the client's income had increased after they join the microfinance institutions because of microfinance institutions services.

Table 4.28: After joining MFIs program, do you think the amount of saving is increased?

| | Frequency | Percent | Percent |
|-------|-----------|---------|---------|
| Yes | 134 | 76.1 | 76.6 |
| No | 40 | 22.7 | 22.9 |
| Total | 175 | 99.4 | 100.0 |

Source: Survey data, 2016

As a result, 76.6% of the respondents found that they are saving their extra income and increase from time to time after they join the microfinance institution, while 22.9% of the respondents saving amount is not increased.

Table 4.29: After joining the MFIs program, do you think the housing condition is improved?

| | Sendafa Bekie town | | Yeka sub city | |
|-------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Yes | 131 | 77.5 | 52 | 89.7 |
| No | 38 | 22.5 | 6 | 10.3 |
| Total | 169 | 100.0 | 58 | 100.0 |

Source: Survey data, 2016

As indicated in table 4.29 above, 77.5% of the respondents replied that their housing condition is improved while 22.5% of the respondents replied that their housing conditions are not improved in Sendafa Bekie town. On the other hand, 89.7% of the respondents reported that their housing

condition is improved while 10.3% of the respondents replied that their housing condition does not improve in Yeka sub city.

Table 4.30: Do you think that there is improvement of access to education of your family?

| | Sendafa Bekie town | | Yeka sub city | |
|-------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Yes | 111 | 65.7 | 41 | 68.3 |
| No | 58 | 34.3 | 19 | 31.7 |
| Total | 169 | 100.0 | 60 | 100.0 |

Source: Survey data, 2016

The above table 4.30 shows that 65.7% of the client's households have better improvement on educational facilities while 34.3% of the respondents reported that the access to educational facilities does not improved in Sendafa Bekie town. 68.3% of the respondents reported that they have an access to educational facilities while 31.7% of the respondents reported that they have no an access to education because of different reasons in Yeka sub city.

Table 4.31: Access to medical facilities has improved after join to microfinance program?

| | Sendafa Bekie town | | Yeka sub city | |
|-------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Yes | 102 | 60.0 | 37 | 61.7 |
| No | 68 | 40.0 | 23 | 38.3 |
| Total | 170 | 100.0 | 60 | 100.0 |

Source: Survey data, 2016

Table 4.31 summarizes the results of the survey regarding the access of medical facilities of the sample respondents. During the survey, 60% of the clients have an access to medical facilities; clients have reported that they have shown an improvement in their ability to pay for medical expenses for their family in Sendafa Bekie town. Similarly, in Yeka sub city, 61.7% of the

respondents reported that the accesses of medical facilities are improved after they join the microfinance program.

Table 4.32: The status of household nutrition of the respondents“ is improved after joining to MFIs program

| | Sendafa Bekie town | | Yeka sub city | |
|-----------------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Improved | 122 | 74.4 | 48 | 80.0 |
| Remain constant | 36 | 22.0 | 12 | 20.0 |
| Worsened | 6 | 3.7 | | |
| Total | 164 | 100.0 | 60 | 100.0 |

Source: Survey data, 2016

As shown in the above table 4.32, 74.4% of the respondent reported that their household nutrition condition is improved, 22% of the respondents replied that their household nutrition condition is remain the same and 3.7% of the respondents reported that their household nutrition condition is worsened after they joined the microfinance institutions in Sendafa Bekie town. While 80% of the respondents reported that their household nutrition is improved and 20% of the respondents household nutrition is remain constant in Yeka sub city.

4.1.2.4. Problems and their remedies taken by MFIs and the government

Table 4.33: What are the problems faced to you in relation to the microfinance program?

| | Sendafa Bekie town | | Yeka sub city | |
|--|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Little amount of loan for intended objectives | 42 | 23.9 | 14 | 23.3 |
| Short term loan | 17 | 9.7 | 6 | 10.0 |
| Shortage of working area to operate the business | 37 | 21.0 | 10 | 16.7 |
| Long processing period to take loans | 23 | 13.1 | 8 | 13.3 |
| Market related issues | 33 | 18.8 | 15 | 25.0 |
| Others | 24 | 13.6 | 7 | 11.7 |
| Total | 176 | 100.0 | 60 | 100.0 |
| Mean | 3.34 | | 3.42 | |
| Std. Deviation | 1.749 | | 1.759 | |

Source: Survey data, 2016

Identifying factors influencing participation in the ADCSI and OCSSCO on microfinance program of Sendafa Bekie town communities become one component of this study. As indicated in table 4.33 above, 23.9% of the respondents reported that little amount of loan for intended purpose is a problem to run their business as well as to change their living standards; 21% of the respondents reported that they faced a shortage of working area to run their business; 13.1% of the respondents reported that long processing period to take loans from ADCSI and OCSSCO is one of a challenge to participate in microfinance programs and 18.8% of the respondents reported that they are in a problem because of marketing related issues.

As indicated in table 4.34 below, 42% of the respondents reported that the microfinance institution provide training and consultancy to alleviate the above listed problems while 58% of the respondents reported that microfinance institutions did not provide any training and

consultancy to alleviate the problems in Sendafa Bekie town. Whereas 55% of the respondent reported that ADCSI provide training and consultancy to minimize the problems in Yeka sub city.

According to table 4.35 below, majority of the respondents (65.7%) reported that lack of training center was the main challenge for the institution to provide training for the clients in the town.

Table 4.34: Does the micro finance institution provide training and consultancy services?

| | Sendafa Bekie town | | | Yeka sub city | | |
|-------|--------------------|---------|---------------|---------------|---------|---------------|
| | Frequency | Percent | Valid Percent | Frequency | Percent | Valid Percent |
| Yes | 74 | 42.0 | 42.0 | 33 | 55.0 | 55.0 |
| No | 102 | 58.0 | 58.0 | 27 | 45.0 | 45.0 |
| Total | 176 | 100.0 | 100.0 | 60 | 100.0 | 100.0 |

Source: Survey data, 2016

Table 4.35: What was the reason for lack of training from MFIs?

| | Frequency | Percent |
|-------------------------|-----------|---------|
| Lack of training center | 67 | 65.7 |
| Time | 12 | 11.8 |
| Lack of willingness | 6 | 5.9 |
| Others | 17 | 16.7 |
| Total | 102 | 100.0 |

Source: Survey data, 2016

Table 4.36: Does the institution supervise your activities on how to use money

| | Sendafa Bekie town | | Yeka sub city | |
|-------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Yes | 80 | 47.1 | 33 | 55.0 |
| No | 90 | 52.9 | 27 | 45.0 |
| Total | 170 | 100.0 | 60 | 100.0 |

Source: Survey data, 2016

The above table 4.36 shows that 47.1% of the respondents replied that the institution supervise the clients activities while 52.9% of the respondents said that the institution does not supervise the clients activities. On the other hand, 55% of the respondents responded that ADCSI supervise the client’s activities while 45% of the respondents responded that there is no any supervision by the institution in Yeka sub city.

Table 4.37: Are there measures taken by the government to support the microfinance services?

| | Sendafa Bekie town | | Yeka sub city | |
|-------|--------------------|---------|---------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Yes | 96 | 54.5 | 35 | 58.3 |
| No | 80 | 45.5 | 25 | 41.7 |
| Total | 176 | 100.0 | 60 | 100.0 |

Source: Survey data, 2016

Table 4.37 shows that 54.5% of the respondents are supported by the government sectors in the study area to increase the participation of microfinance institutions services while 45.5% of the respondents are not in Sendafa Bekie town. Whereas 58.3% of the respondents are supported by the government and 41.7% of the respondents said that they are not support by government in Yeka sub city. From 54.5% of the respondents they are supported by the government in Sendafa Bekie town, 36.4% of the respondents reported that the government provide consultancy to the clients about how to run their business and how to develop business plan; 23.2% of the respondents access the working area from the government to apply the borrowed capital from ADCSI and OCSSCO; 17.2%, 6.1% and 17.2% of the respondents reported that the government tried to search market, providing the training center and other facilities as indicated in table 4.41 below.

Table 4.38: What are the roles of government to assist your business or to improve the living standard?

| | Frequency | Percent |
|---|-----------|---------|
| Providing consultancy | 36 | 36.4 |
| Provide training center | 6 | 6.1 |
| Providing working area for intended purpose | 23 | 23.2 |
| Searching market | 17 | 17.2 |
| Others | 17 | 17.2 |
| Total | 99 | 100.0 |

Source: Survey data, 2016

4.1.3. Interview results

This section presents the results of the study in achieving the objectives aimed to address based on the methodology discussed in chapter three above. This section emphasize on showing the services and products of MFIs, the contribution of MFIs for Sendafa Bekie community development and the challenges of MFIs to provide services to the communities and the remedies for the problems. The interview cover 3 branch managers and 3 credit officers of MFIs and 2 Sendafa Bekie town government officials.

As discussed with branch manager and credit officer, OCSSCO provide financial as well as non-financial services for Sendafa Bekie communities. The financial services include saving, credit, insurance, money transfer and fund administration services to the poor communities. Whereas the non-financial services include training, consultancy and orientation service as well as monitoring and supervision.

The Interviews disclose that ADCSI provides financial as well as non-financial services to the poor communities. The financial services delivered by ADCSI in Sendafa Bekie town are lending and saving services. Whereas Non-financial service provided by the company takes in to account the following: consultancy and orientation service as well as monitoring and

supervision. Also ADCSI provide financial and non-financial services to Yeka sub city communities.

The interviewee informed that ADCSI delivered different types of saving to the communities in Sendafa Bekie town and Yeka sub city. These includes mandatory saving, security saving, monthly saving, voluntary saving such as loan and non-loan clients saving, box saving, Provident fund saving, time deposit, and pension saving in Yeka sub city, whereas in Sendafa Bekie town the communities used the institution for mandatory saving, security saving, loan and non-loan clients saving.

As discussed with the OCSSCO official and branch manager, OCSSCO provide different types of saving to the communities in Sendafa Bekie town. These includes Mandatory saving, security saving, monthly saving, voluntary saving such as loan and non-loan clients saving, box saving, Provident fund saving, time deposits, children saving, and pension saving, however the communities mainly used the mandatory saving and security saving.

The interviewee informed that the loan delivered by ADCSI in Sendafa Bekie town include micro loan, small loan, consumption loan, agricultural loan, short term loan and Housing loan. However in Yeka sub city the institution delivered micro lease loan in addition to the above loan product. Individuals, groups & cooperatives can use this loan. The clients involved in priority business areas to get this type of loan. Also OCSSCO provide different types of loan to Sendafa Bekie communities for different purposes. These include agricultural loan, Small and micro enterprise loan and urban petty trading loans. Agricultural loans is a one-year loan for agricultural purposes including oxen, poultry, fattening, pesticide, fertilizers, seeds, dairy, animal husbandry, small irrigation, land rent, handicraft, honey bee keeping and household asset building. Small and micro enterprise loan is designed to minimize unemployment, stimulate micro & small enterprises, increase technology transfer, and solve the problems of the borrower. It includes a housing loan, general purpose loan and business loan. Urban petty trading loan is a loan for petty trades with various business purposes. To provide loan, the careful selection and screening is made by administration with assistance of branch staff. Selected clients should be honest, no credit default, capable to produce, repay without endangering family living and

demonstrate other good social characters of the whole family. After selection, orientation on the institution objectives, strategies, policies, group, center formation, in addition to the training of loan utilization is given for the eligible group.

As discussed with the interviewee, ADCSI provide service to Sendafa Bekie town and Yeka sub city poor communities who have no enough capital and who have the capacities to perform different business activities. These business activities include micro and small enterprise, agriculture, services like hospital and hotels and different assets purchase such as care, building materials and house purchase. In addition to this the institution provide loan for household purpose and other activities that are used for generating income in Sendafa Bekie town. However, the microfinance services do not cover the needs of the communities in Sendafa Bekie town.

The branch manager and credit officer informed that, OCSSCO provides small/micro loans to the poor entrepreneurs, unemployed people, and others living in poverty that lacks collateral, steady employment and verifiable credit history for Sendafa Bekie urban communities. The institution provides loan for micro and small enterprises, different business, asset purchase and general purposes. The general purpose loan provide for civil servants. The institution delivers its credit provision on a non-random basis. Due to the shortage of fund and the inadequate capacity of the institution, it could not meet all the demands in the area. It uses targeting principles based on business, household and gender priorities.

The result of interviews about women participation in MFIs indicate that, ADCSI provide different types of products and services to their women clients in Sendafa Bekie town and Yeka sub city. The institution gives priority to women in the provision of financial services in the study area. ADCSI in Yeka sub city participate in women entrepreneurships development program (WEDP).

Also OCSSCO focus on women clients to support the government strategy on increasing the participation of women in economic activities and empowering them. The institution tried to apply the WEDP loan project in the area. To participate in this project the women should be

working in enterprises at least six months and can form the group with male and the minimum requirement is 50 +1. However the awareness of the women towards the project is still not good.

The interviewee said that the involvement of microfinance services improved the living standards of the communities as well as business development in the study area. The microfinance services enable the communities to improve the level of income, food security of the household members, increases their assets and supports the poor communities to have access to school and medical facilities and also the growth of enterprises in area is increased. However there are challenges to provide the services to the communities. Most of the activities of Sendafa Bekie branch of OCSSCO are performed manually. Because of this there are many challenges to perform the activities effectively and efficiently. The shortage of skilled man power to follow-up and supervise the activities of each client, failures of clients business, Skill problem of client /Lack of knowledge, Loans used in consumption/not invested by client, Loan default, lack of materials such as computer, lack of motivation for staff members, transportation problems during follow up and allowed limited portfolios were some of the challenges as discussed with the branch manager and staff of OCSSCO in Sendafa Bekie branch.

The interviewee said that, ADCSI perform different microfinance activities with sub city administration office cooperatively. The amount of loan allowed to the clients is inadequate to run their business because of limitation of finance allocation to the branches. Micro-credit enables very poor people to join in self-employment projects that generate income, thus allowing them to improve the standard of living for themselves and their families. However there are challenges in relation to this microfinance product in the Yeka sub city and Sendafa Bekie town, such as the communities request the loan without any preconditions, the clients does not apply the borrowed money for intended purpose fully and partially, the clients does not start the profitable business, the client does not repaid the loan because of business failure and negligibility, lack of willingness of the clients to take training etc. ADCSI does not have the law officer in each branches to follow up the client's problems, it manages centrally. This system create a work load for branch officers and also the clients are not interested to pay their loan even if they have enough amount of money to paid the loan.

The interviewee indicated that MFIs tried to solve the challenges that are related to the microfinance program. However the problems cannot be solved because of different reason such as lack of training center, shortage of budget, shortage of staff members and others.

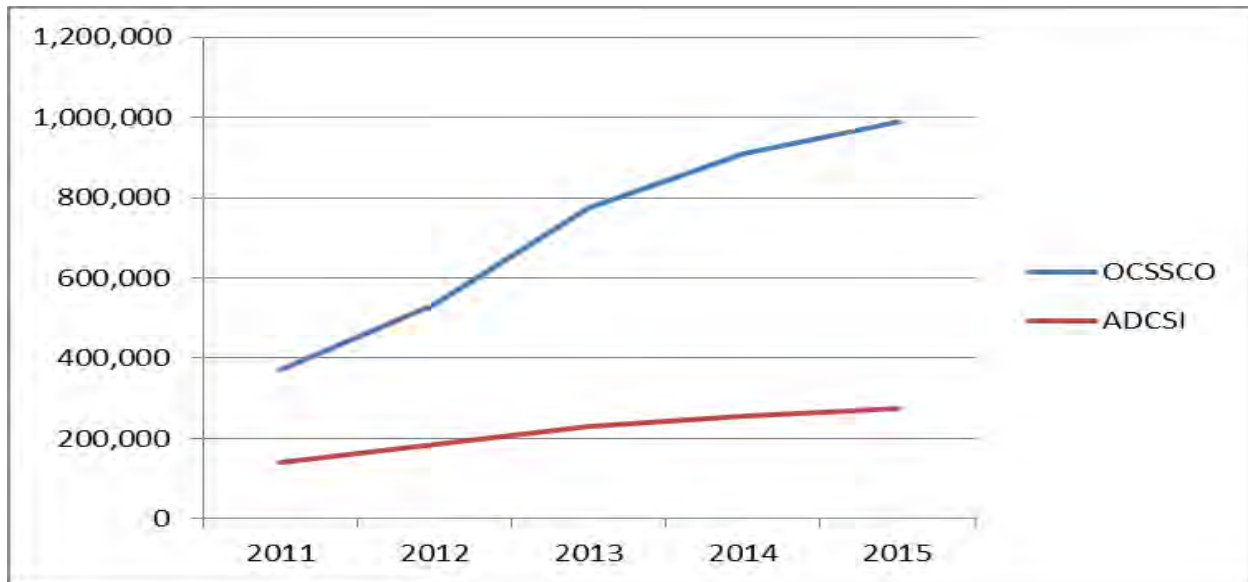
As discussed with the Sendafa Bekie town administration government official, the government provides the business plan, training and other support to potential poor borrowers of OCSSCO to help them acquire skills and values which they need to initiate micro enterprises. In addition to this the government assists the microfinance institution program in organizing the poor communities in to different groups and facilitate the loan with OCSSCO in the town. However the relationship between Sendafa Bekie town government sectors and ADCSI is not strong.

4.2. Analysis

In this section an attempt has been made to analyze the results of financial performance of ADCSI and OCSSCO, the services provided by MFIs and the contribution of MFIs for community's development in Sendafa Bekie town and Yeka sub city.

First, the study assesses the financial performance of microfinance institutions based on the research question. As per the literature, Melkamu (2012) indicated that an increase in the number of borrowers would lead to an increase in the financial self-sufficiency of MFI. Therefore, if all other things are held constant, higher number of borrowers would precede the microfinance to become more sustainable. The result indicated that the outreach of ADCSI and OCSSCO was increased from time to time and there was a better outreach to provide services to the community at large. MFIs achieve outreach by targeting the client groups that are most vulnerable such as women and/or people with very low incomes. Evaluating the number of clients being served by a MFIs has been noted in literatures as essential performance indicator for a given MFIs. The trend of number of active clients of the MFIs is frequently increased as can be observed from the result. Each MFI's outreach has shown an increased trend over the period of the study with different rates of growth in the period from 2011 to 2015.

Figure 4.1: Trends of outreach



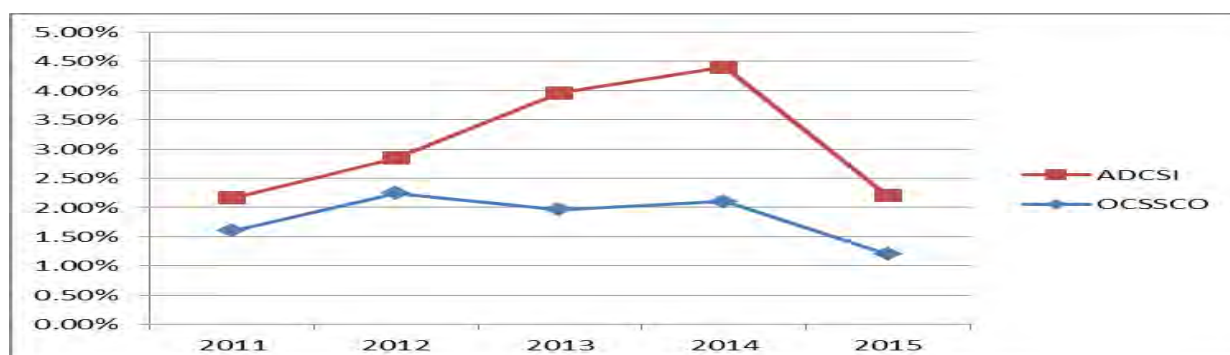
Source: researcher's own computation from financial statements

Full financial sustainability is allowing continuing operating at a stable or growing scale without ongoing support from external supporters such as governments, donor agencies, or charitable organizations. The study indicates that, ADCSI have achieved operational self-sufficiency in the years 2013, 2014 and 2015 by scoring above 100%. However, for the years 2011 and 2012 revenues from operations are not sufficient to cover all operating expenses. From this it can be concluded that ADCSI were in a position to generate sufficient revenue to cover their operating expenses from the year 2013 to 2015. But, the institution has relatively high operational expenses in the years 2011 and 2012, because the institution operational self-sufficiency shows below the level 1 or 100%. OCSSCO have achieved operational self-sufficiency from the years 2011 to 2015 by scoring above 100%. This result indicates that the institution has the ability to generate sufficient revenue to cover its expenses from the year 2011 to 2015.

Profitability ratios reflect the microfinance institutions' ability to continue operating and growing in the future. Regardless of their nonprofit or for profit status; donors and investors alike look to fund sustainable institutions. Profitability of microfinance institutions were measured and analyzed using Return on Assets (ROA) and Return on Equity (ROE) (Andnet, 2011). The result

shows that ADCSI and OCSSCO return on asset ratio increased from the year 2011 to 2014; this reveals that during that time the institutions manage their asset in a well manner to improve and maximize its profitability. However, in the year 2015 the ROA ratio decreased and this indicated that the institutions do not manage their asset during the year.

Figure 4.2: Trend of ROA



Source: researcher's own computation from financial statements

The results of OCSSCO and ADCSI return on equity from the 2011 and 2015 show an increased ratio and this was because of the increasing operating income over the year. From this result, we can conclude that the institutions have the ability to reward its investor's investment, make its equity base by means of retained earnings, and increase additional investment.

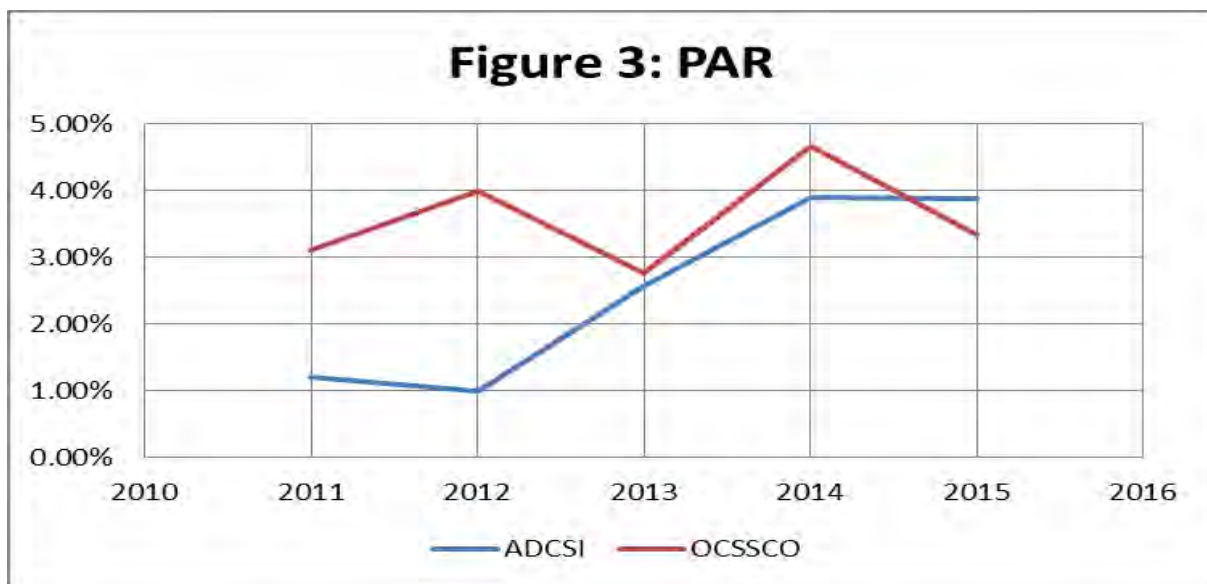
Efficiency ratios provide information about the rate at which MFIs generate revenue to cover their expenses. The study tried to investigate cost per loan or borrower ratio and Administrative efficiency/operating cost ratio. Therefore, the study shows that the cost per borrower ratios of ADCSI and OCSSCO are increased from the year 2011 to 2014. This result shows that the institutions disburse more in personnel and administrative expenses to serve the clients and earn less profit from every client. However, in the year 2015 both ADCSI and OCSSCO cost per borrower ratio is decreased from the previous years; this indicate that the institution is decreasing the operating expense and increasing their profit.

From the result, it can be observed that ADCSI and OCSSCO operating cost ratio is decreased in the year 2012 when compared with the year 2011. This indicated that cost of delivering loan services to the clients is better in the year 2012. The institutions operating cost ratio showed an

increasing pattern from the year 2012 to 2014 and decreased in the year 2015 from the previous year. Generally, ADCSI and OCSSCO incurred more costs to provide loans to the clients in the years especially the operating cost of ADCSI is very high throughout the years.

Portfolio at Risk (PAR) is the most important measure of an MFI's asset quality. A decreasing PAR signs is a healthy loan portfolio. The study revealed that portfolio at risk for OCSSCO relatively increased throughout the years. This shows that low loan repayment rates and less financially sustainable to provide service to the communities and the institution doesn't have an effective follow up for the client's activities permanently. Similarly also the results indicated that the portfolio at risk for ADCSI from the year 2012 to 2014 showed an increased pattern. This was reflecting low loan management practices in the institution. Generally, we can conclude that the loan portfolio quality of the institutions is not good.

Figure 4.3: PAR



Source: researcher's own computation from financial statements

Table 4.39: Descriptive statistics for ADCSI

| | Mean | Std. Dev. | Minimum | Maximum |
|----------------------|----------|-----------|----------|----------|
| Outreach | 217805.0 | 55192.72 | 140546.0 | 276075.0 |
| OSS | 120.3280 | 34.58803 | 90.50000 | 171.0000 |
| ROA | 1.292000 | 0.808900 | 0.560000 | 2.300000 |
| ROE | 6.090000 | 4.267224 | 1.300000 | 9.980000 |
| Borrower ratio | 15.51000 | 7.756623 | 7.400000 | 27.42000 |
| Operating cost ratio | 16.20000 | 6.961322 | 9.800000 | 27.40000 |
| PAR | 2.546000 | 1.401456 | 1.000000 | 3.900000 |

Source: Researcher’s own computation from financial statements

As stated in the above table, table 41, the outreach measurements“ indicate that, ADCSI have an average 217,805 active clients over the last five years. The mean of OSS for ADCSI equals 120.328 % with a minimum of 90.5% and a maximum of 171%. It reveals the ability ADCSI to continue its operations if it receives no further subsidies. In the institution there is high variation of borrower ratio with the maximum of 27.42 % and a minimum of 7.4%. Similarly, there is high variation of operating cost ratio with the maximum of 27.4% and a minimum of 9.8%. These high variations occur the institution does not use its resources, particularly its assets and personnel. The average PAR for ADCSI is 2.546% with the maximum of 3.9% and with the minimum of 1%. This indicates that the variation of risk in the studied years is high.

Table 4. 40: Descriptive statistics for OCSSCO

| | Mean | Std. Dev. | Minimum | Maximum |
|----------------------|----------|-----------|----------|----------|
| Outreach | 715143.8 | 258209.4 | 370982.0 | 987828.0 |
| OSS | 123.8400 | 23.11121 | 102.0000 | 152.0000 |
| ROA | 1.820000 | 0.420476 | 1.200000 | 2.240000 |
| ROE | 8.548000 | 2.096693 | 5.000000 | 10.10000 |
| Borrower ratio | 12.74200 | 3.597106 | 9.300000 | 18.77000 |
| Operating cost ratio | 4.038000 | 0.892648 | 3.000000 | 5.400000 |
| PAR | 3.574000 | 0.760480 | 2.770000 | 4.670000 |

Source: Researcher’s own computation from financial statements

As indicated in the above table 41, the outreach measurements indicate that, OCSSCO have an average 715143.8 active clients with the maximum of 987,828 and with the minimum of 370,982 over the last five years. The mean of OSS for OCSSCO equals 123.84% with a minimum of 102% and a maximum of 152%. It reveals the ability of OCSSCO to continue its operations if it receives no further subsidies. The mean of the ROA and ROE ratio of OCSSCO equals to 1.82% and 8.548% with the maximum of 2.24% and 10.1% and with the minimum of 1.2% and 5% respectively. The result indicates that, by excluding donations and non-operating revenues, the ratios reveal an institution's ability to generate income from its core financial service activity. The average PAR for OCSSCO is 3.574 % with the maximum of 4.67% and with the minimum of 2.77% for last five years.

Second, the study investigates the services provided by ADCSI and OCSSCO in Sendafa Bekie town and Yeka sub city. As per the literature, microfinance is the provision that provides access to various financial services such as credit, savings, micro insurance, remittances, leasing to low-income clients including consumers and the self-employed, who traditionally lack access to banking and related services. Microfinance provides financial services to those whose income is small and unstable, particularly women. The diversity of products and services offered shows the reality that the financial needs of individuals, households and enterprises can change significantly over time, especially for those who live in poverty, which is not benefited from the formal bank.

The result reveals that the majority of the clients are self-employed. We can also conclude that mainly the communities use microfinance services to run their business or to generate their income. However the government employed may receive loans from microfinance institution for household purposes. When we compare Sendafa Bekie town and Yeka sub city clients, the percentage of self-employed in Yeka sub city is greater than Sendafa Bekie town which is the self-employed clients in Sendafa Bekie is 67% while self-employed clients in Yeka sub city is 80%.

The results indicated that the majority the microfinance services users have a source of income and they join the microfinance institution services to increase their income and to alleviate

poverty in the study area. The majority of the respondents have monthly income less than ETB 500 in Sendafa Bekie town and more than ETB 3000 in Yeka sub city. This result indicate that many clients in Yeka sub city participate in microfinance program to increase their existing income however the communities in Sendafa Bekie town required the microfinance program to start the new business. Similarly also we can conclude the living standards of the communities and the business operation in Yeka sub city is better than the living standards of the communities and business operation in Sendafa Bekie town. The result reveals that saving is available for all community without any restriction and next to this credit is available for the poor community in Sendafa Bekie town. When we compare the microfinance services in Sendafa Bekie town with Yeka sub city, in Sendafa Bekie town, the dominant services provided by the institutions are saving and credit while in Yeka sub city, the dominant services provided by the institution are saving and others like insurance, paid salary and credits.

Majority of the respondents said that they have no other sources of credit in the study areas. This indicates that microfinance institutions are the only source of credit for majority of the clients. Therefore, we can conclude that microfinance institutions are very crucial for poor communities who have no collateral. The communities mainly borrowed money to start the new business and to expand the existing business. We can again conclude that microfinance institution give loans for the communities for business operation, this means the institution mainly focus on business aspects. Majority of the respondents used the borrowed money for the intended purpose. This shows that microfinance institutions supervise the client's activities. The majority of the client monthly income after they join the microfinance program fall under birr 500 as before they join the microfinance services in Sendafa Bekie town. This indicates that there are different problems in relation with business operation like marketing problems and shortage of enough amount of money to run their business.

Majority of the respondent's access training from microfinance institutions but the training mainly focuses on saving in the study area. The training provided by the microfinance institution is very important for the clients. Almost all clients said that the training helped them to improve the business operation or to increase the income level. This has an implication that training has a positive impact to improve the business operation and to improve the living standards of the

clients. In addition to this MFIs provide non-financial service to poor communities“ mainly marketing and technical assistance.

The findings revealed that ADCSI and OCSSCO financial services are accessible for the majority of poor communities in the study areas. However the service which is accessible for all communities is saving. When we compare the two areas, the saving habit of the communities in Yeka sub city is better than Sendafa Bekie town. Based on the result, the loans approved to the clients are not enough to run their business or to change the living standards of the community for both Sendafa Bekie town and Yeka sub city. In general, we can conclude that the amount of loan permitted by microfinance institution is not sufficient in areas.

In addition, Based on the interview result MFIs provide financial as well non-financial services to the poor communities in the study areas. The financial services which are provided in Sendafa Bekie town are saving and credit. This indicates that microfinance institutions provide limited financial services to the communities in the area. The financial service provided by ADCSI in Yeka sub city is better than Sendafa Bekie town, because in addition to saving and credit the institution is providing insurance services and paid salary. Access to financial services reduces vulnerability and helps poor people to increase their income and has become an important part of many development initiatives in the area.

The result indicates that due to the shortage of fund and the inadequate capacity of the institution, OCSSCO could not meet all the demands in the area. It uses targeting principles based on business, household and gender priorities. Similarly the ADCSI service does not cover the needs of the communities in Sendafa Bekie town, but it is better in Yeka sub city. Generally, we can say that the poor communities do not access enough microfinance services to change the living standards as well to develop their business in Sendafa Bekie town.

Table 4.41: Mean and Std. Deviation of products provided by MFIs

| | N | Mean | Std. Deviation |
|---|-----|------|----------------|
| For what purpose did you receive loan from MFIs in sendafa bekie town | 173 | 2.33 | 1.201 |
| Average monthly income after loan in sendafa bekie town | 164 | 3.03 | 1.939 |
| Training provided by MFIs in sendafa bekie town | 176 | 1.41 | .494 |
| For what purpose did you receive loan from MFIs in yeka sub city | 60 | 2.62 | 1.574 |
| Average monthly income after loan in yeka sub city | 58 | 3.55 | 1.827 |
| Training provided by MFIs in yeka sub city | 60 | 1.32 | .469 |

Source: Survey data, 2016

When we see the Std.Deviation of average monthly income of the respondents and training in Yeka sub city and Sendafa Bekie town, the variation in Yeka sub city is smaller than Sendafa Bekie town. Hence, the product provided by MFIs in Yeka sub city is better than sendafa bekie town.

Third, the study analyzes the contribution of MFIs for community development by comparing the clients in Sendafa Bekie town and Yeka sub city. As per the literature, MFI schemes were initiated to meet different objectives. The most commonly mentioned objectives include: poverty alleviation and improved living standards, offering financing to the poor, women's empowerment, and the development of the business sector as a means of achieving high standards and reducing market failure (Bichanga, 2014).

The result indicated that the participation of women in microfinance program is fair in Sendafa Bekie town whereas the participation of women in microfinance program is high in Yeka sub city. This result have an implication of microfinance programs that is supposed to empower

woman through increased decision making in the household, training and awareness, better incomes, among others. The institution gives priority to women in the provision of financial services in the study area. Microfinance services are often focused on women for different reasons. The microfinance institution in the area has a fundamental role to empower women in the economic activities. Microfinance services will assist women to make greater contribution to household income. This leads to improve the living standards of the household. WEDP is effectively reaching its target segment of under-served women entrepreneurs, who have the desire and potential to grow their businesses in Yeka sub city. When we compare the participation of women in microfinance services in Sendafa Bekie town and Yeka sub city, the finding indicated that the participation of women in Yeka sub city has a better achievement than Sendafa Bekie town.

The community needs financial and non-financial services from microfinance institutions to enhance their productivity, profitability and growth of business. Microfinance institution services have become major pillars in the survival of the community in Sendafa Bekie town and in the country at large. MFIs can help people become more economical secure. This opportunity has a multiple effect on people's standard of living, enhancing household welfare such as food security, shelter, sanitation, health and educational services. Also the findings indicate that majority of the respondent's profit is improved after they join the microfinance institutions services; the client's business is small scale and operates by them and the client's income level and saving amount is increased after they join the microfinance program in Yeka sub city and Sendafa Bekie town. The poor communities borrowed money from microfinance institution to improve the living standards. Therefore, based on the result, it is possible to say that ADCSI and OCSSCO micro financing intervention has a positive impact on the housing improvement of its clients. The housing condition of the communities is improved because of microfinance institutions program in both areas but it is better in Yeka sub city, it might be because effective loan usage as well as effective business operations. The majority of the client's family have an access to education and it is the implication of better achievements in business sector and the enhancement of the living standards of the communities in the area. The higher percentages of the frequent borrowers have reported an improvement in their ability to pay for medical expenses

because of microfinance program. Similarly almost all clients of the MFIs household nutrition condition is improved because of microfinance program. Therefore, based on the result, it is possible to say that ADCSI and OCSSCO micro financing intervention has a positive impact on the housing improvement of its clients, school enrollment of client's family, on the improvements of access to medical facilities and on the household nutrition conditions. In Sendafa Bekie town, participating in microfinance program improves the level of income, food security of the household members, increases their assets and supports the poor communities to have access to school and medical facilities. In general microfinance institutions have numerous contributions to the communities' development in aspect of living standards and business operation or micro and small enterprise development in the area. However, these contributions are better in Yeka sub city when comparing with Sendafa beke town.

Table 4.42: Contribution of MFIs mean and Std. Deviation for Sendafa Bekie town

| | N | Mean | Std. Deviation |
|---|-----|------|----------------|
| Participation women in MFIs program | 176 | 2.55 | 1.079 |
| Housing condition after joining to MFIs program | 169 | 1.22 | .419 |
| Improvement of access to educational facilities | 169 | 1.34 | .476 |
| Improvement of access to medical facilities | 170 | 1.40 | .491 |
| Status of household nutrition after joining to MFIs program | 164 | 1.29 | .531 |

Source: Survey data, 2016

Table 4.43: Contributions of MFIs mean and Std. Deviation for Yeka sub city

| | N | Mean | Std. Deviation |
|---|----|------|----------------|
| Participation women in MFIs program | 60 | 2.43 | .909 |
| Housing condition after joining to MFIs program | 58 | 1.10 | .307 |
| Improvement of access to educational facilities | 60 | 1.33 | .475 |
| Improvement of access to medical facilities | 60 | 1.38 | .490 |
| Status of household nutrition after joining to MFIs program | 60 | 1.20 | .403 |

Source: Survey data, 2016

When we see the Std.Deviation of women participation, housing condition, access to education, access to medical facilities and the status of household nutrition in Yeka sub city and Sendafa Bekie town, the variation in Yeka sub city is smaller than Sendafa Bekie town. Therefore, the contribution of MFIs in Yeka sub city shows similar living standards among the clients relatively.

Finally, the study investigates the challenges while providing the microfinance services and the remedies for these problems. The majority of the respondents business fails because of lack of sufficient capitals obtained from microfinance institutions in Sendafa Bekie town but the main reason for business failures in Yeka sub city is market related issues. The respondents reported that microfinance institutions did not provide adequate training and consultancy to alleviate the problems in Sendafa Bekie town because of lack of training center. However, ADCSI provide training and consultancy to minimize the problems in Yeka sub city.

Majority of the respondents said that the institution does not supervise the client's activities. This result shows that ADCSI and OCSSCO have no enough amounts of employees to supervise the

client's activities to know how they use the borrowed money in Sendafa Bekie town. When we compare the two areas, the supervision in Yeka sub city is better than in Sendafa Bekie town.

Government play a critical role regarding with MFIs, for example setting policy for the microfinance industry, providing lump sum grants to MFIs. The significance of this can be explained that the involvement in MFIs improves the ability of poor citizens to increase their own wealth. By engaging people in this way, poor citizens are more likely to cooperate and problem solving capacities at individual and social welfare can be enhanced. The result indicate that the governmental organization has important roles to promote the product or service provided by the microfinance institutions and this will not be achieved without any support of the governmental sectors. Majority of the clients are supported by the government sectors in the study areas to increase the participation of microfinance institutions services. The government sectors provide consultancy to the clients about how to run their business and how to develop business plan. The poor clients access the working area from the government to apply the borrowed capital from ADCSI and OCSSCO and the government tried to search market and providing the training center. Generally, the government has a crucial role to increase the community's participation in microfinance institutions program and the government support in Yeka sub city is better than in Sendafa Bekie town.

However, shortage of skilled man power to follow-up and supervise the activities of each client, failures of clients business, Skill problem of client /Lack of knowledge, Loans used in consumption/not invested by client, Loan default, lack of materials such as computer, lack of motivation for staff members, transportation problems during follow up and allowed limited portfolios were some of the challenges of OCSSCO. Similarly some of the challenges of ADCSI are communities request the loan without any preconditions, the clients does not apply the borrowed money for intended purpose fully and partially, the clients does not start the profitable business, the client does not repaid the loan because of business failure and negligibility, lack of willingness of the clients to take training, shortage of law officer etc.

In Sendafa Bekie town the government institutions have been working to take microfinance within the reach of poor people, who are still not benefited by the conventional financial system

such as banks. The contributions made by OCSSCO and town administration is important in the elimination of poverty by increasing the income generating activities, empowerment of poor people to access development services such as health and education, and reduction in vulnerability of different inconvenience

Chapter Five

Conclusion and Recommendation

This paper examined the financial performance of microfinance institutions and their contribution for Sendafa Bekie communities' development by comparing with the communities in Yeka sub city administration woreda 11, by collecting primary and secondary data from ADCSI, OCSSCO and Sendafa Bekie Town Administration Government offices. This chapter particularly concludes the main findings and recommendations based on the objectives and research question set under chapter one. Therefore, based on the previous chapters and discussions made we can finalize all the findings in the following points.

5.1. Conclusion

In order to measure the overall financial performance, financial revenue and financial expense indicators as well as returns can be compared against the institutional of equity and assets. Efficient and effective institutions reach number of poor people with minimum costs of delivering service. Mostly supposed that the greater the number of borrowers the better the outreach and as a result, it leads the microfinance institutions to become better sustainable. The decreasing PAR values indicate the good loan portfolio of microfinance institutions.

Number of active clients of the ADCSI and OCSSCO is frequently increased as can be observed from the result. Each MFI's outreach has shown increment over the period of the study with different rates of growth in the period from 2011 to 2015. ADCSI were in a position to generate sufficient revenue to cover their operating expenses from the year 2013 to 2015. But, the institution has relatively high operational expenses in the years 2011 and 2012. OCSSCO have achieved operational self-sufficiency from the years 2011 to 2015. This indicates that the institution has the ability to generate sufficient revenue to cover its expenses during the period.

From profitability point of view, ADCSI and OCSSCO doing well from the year 2011 to 2014; during that time the institutions manage their asset in a well manner to improve and maximize its profitability. However, in the year 2015 the ROA decreased and the institutions do not manage their asset during the year. The OCSSCO and ADCSI return on equity from the 2011 and 2015

show an increased ratio and this was because of the increasing operating income over the year. So that the institutions have the ability to reward its investor's investment, make its equity base by means of retained earnings, and increase additional investment.

From the efficiency angle, the cost per borrower ratios of ADCSI and OCSSCO are increased from the year 2011 to 2014. This means that institutions spend more in personnel and administrative expenses to serve the clients and earn less profit from every client. However, in the year 2015 cost per borrower ratio is decreased from the previous years and the institutions operating expense is decrease and increases their profit. And also the institutions incurred more operating costs to provide loans to the clients in majority years. Especially the operating cost of ADCSI is very high throughout the years.

From portfolio quality point of view, portfolio at risk for OCSSCO and ADCSI relatively increased throughout the years. This indicated that low loan repayment rates and less financially sustainable to provide service to the communities and the institution doesn't have an effective follow up for the client's activities permanently.

The primary goal of most microfinance institutions is improving the economic status of poorer segment of population, most service provider's aim for a broader impact of enhanced wellbeing. These institutions deliver financial services such as loans, savings, insurance, money transfer and others and non-financial services includes training, consultancy, supervision and monitoring to a large number of productive poor people. Microfinance institutions provide a variety of financial services that target low-income clients, particularly women. The study indicated that microfinance institutions gave weight to women borrowers as compared to men clients and the participation of women in microfinance service is relatively better. Majority of the client in Sendafa Bekie town and Yeka sub city are the age between 25-40 years and self-employed. Mainly the communities use microfinance services to run their business or to generate their income. Majority the microfinance services users have a source of income and join the microfinance institutions to increase their income and to alleviate poverty in the study area. The majority of these respondents have monthly income less than ETB 500 in Sendafa Bekie town and more than ETB 3000 in Yeka sub city. This indicates that the living standard of the

communities and the business operation in Yeka sub city is better than the living standards of the communities and business operation in Sendafa Bekie town. Majority of the respondents they have no other sources of credit in the study area. This indicates that microfinance institutions are the only source of credit for majority of the clients. We can conclude that microfinance institutions are very crucial for poor communities who have no collateral. The communities mainly borrowed money to start the new business and to expand the existing business. However, the majority of the client monthly income after they join the microfinance program fall under birr 500 as before join to microfinance services in Sendafa Bekie town. Majority of the client said that they access training from microfinance institutions but the training is focus on saving in the study area. The findings revealed that ADCSI and OCSSCO financial services are accessible for the majority of poor communities in the study area. However the service accessible for all communities is saving. The loans approved to the clients are not enough to run their business or to change the living standards of the community Sendafa Bekie town and Yeka sub city. Generally the microfinance services and product which are provided in Yeka sub city is better than Sendafa Bekie town.

The provision of microfinance from theoretical perspectives, improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smoothen their consumption, manage their risks better, build their assets gradually, develop their microenterprises, enhance their income earning capacity, and enjoy an improved quality of life. The study indicated that that ADCSI and OCSSCO micro financing intervention has a positive impact on the housing improvement of its clients, school enrollment of its client's family, on the improvements of access to medical facilities and on the household nutrition conditions. These contributions are better in Yeka sub city when we compare with Sendafa Bekie town. However, the institutions faced many challenges to provide microfinance services and change the living standards of the communities as well as to develop their business in the study area. shortage of skilled man power to follow-up and supervise the activities of each client, failures of clients business, Skill problem of client /Lack of knowledge, Loans used in consumption/not invested by client, Loan default, lack of materials such as computer, lack of motivation for staff members, transportation problems during follow up and allowed limited portfolios were some of the

challenges of OCSSCO. Similarly the challenges of ADCSI includes communities request the loan without any preconditions, the clients does not apply the borrowed money for intended purpose fully and partially, the clients does not start the profitable business, the client does not repaid the loan because of business failure and negligibility, lack of willingness of the clients to take training, shortage of law officer etc.

Finally, the study indicate that the governmental organization has important roles to promote the product or service provided by the microfinance institutions and this will not be achieved without any support of the governmental sectors. In Sendafa Bekie town the government institutions have been working to take microfinance within the reach of poor people, who are still not benefited by the conventional financial system such as banks.

5.2. Recommendations

Based on the empirical finding, the following recommendations can be drawn.

MFI's should work eagerly to improve efficiency and generate revenue to cover their expenses by maximizing (optimizing) the use of their resources, efficient methodology and encourage highly productive staffs because this is the means to assure its survival in the market by its own, without the support of donors.

The result of portfolio at risk shows a variations from year to year, which means that the portfolio quality doesn't have a constant improvement. MFI's should improve supervision and follow up of the client's activities and the institutions should develop a mechanism to manage loans effectively and also the institutions try to share their experience.

As it was observed from the result ADCSI focus on women to increase their participation in social and economic aspects like WEDP in Yeka sub city, Hence, MFI's in Sendafa Bekie town should encourage the participation of women in microfinance services as Yeka sub city by creating awareness about the program.

As it was observed from the respondents the dominant financial services available for the communities in MFI's are saving and also the amount of loans offered to the clients is not sufficient. Therefore, Microfinance institutions should provide enough amounts of loans based

on the client's loan history and their business performance and other financial services to poor communities to change the living standards as well as to improve the business operation in the area.

As it was observed from the respondents after they join the microfinance program, the client's business development and living condition is better in Yeka sub city than Sendafa Bekie town. Therefore, there should try to diversifying the microfinance program, they offer enough capital to run their business and can change the living standards of the poor within a short period of time in Sendafa Bekie town.

The result shows that the institutions do not provide enough non-financial services to the clients. Hence, the MFIs and the government should try to work cooperatively to provide adequate non-financial services to the clients.

The institutions should try to solve the challenges to achieve their objectives, deployed enough number of staffs to supervise the client's activities and establish strong networks with governmental and non-governmental organizations to provide effective microfinance services to the poor communities. Also ADCSI should deploy at list one law officer in each branch to implement the law accurately.

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6. How many family members do you have after the loan?
 (1) Less than 3 peoples 1 (2) 3 -5 peoples2 (3) More than 5 peoples 3
7. What is your occupation?
 (2) Self-employed 1 (2) Government employee2 (3) Others3, please specify
8. Did you have a source of income for your household before joining the MFIs program?
 (1) Yes1 (2) No 2 if “yes” please specify
9. If your answer is “yes” on question no “1” What is your average monthly income?
 (1) Below ETB 5001 (4) ETB 1500_2000 4
 (2) ETB 500 _ 1000 2 (5) ETB 2000_3000 5
 (3) ETB 1000_1500 3 (6) More than ETB 3000 6

Part 2: MFIs products and services provided to community

1. What types of MFIs products are available to you?
 (1) Credit 1 (4) Payments 4
 (2) Transfers2 (5) Others5, please specify.....
 (3) Saving3
2. Did you have any source of credit other than MFIs?
 (1) Yes 1 (2) No2
3. If “yes”, on question No. “5” what is your source?
 (1) Iddir 1 (3) Friends/relatives3
 (2) Money lenders2 (4) Banks4
 (4) Other5, please specify
4. For what purpose did you receive loan from MFIs?
 (1) To start a business 1 (4) Expand existing business 4
 (2) To pay ward school fees 2 (5) To serve as housekeeping money5
 (3) To pay for Health purpose 3 (6) Others 6, Please specify.....
5. Did you spend the total amount of borrowed money for intended purposes?
 (1) Yes 1 (2) No 2

6. If “No” on question “8” What was the reason(s) for spending part/entire loan on non-intended purposes?

- (1) The loan amount was not enough for the intended purpose 1
- (2) Market problem 2 (3) To repay another loan 3
- (4) Others 4, please specify.....

7. What is your average monthly income after the loan?

- (1) Below ETB 500 1 (4) ETB 1500_2000 4
- (2) ETB 500 _ 1000 2 (5) ETB 2000_3000 5
- (3) ETB 1000_1500 3 (6) More than ETB 3000 6

8. Is there any training provided by the microfinance institution to assist your business or how to use the loan for intended purpose?

- (1) Yes 1 (2) No 2

9. If your choice is “Yes” what types of training provided to you?

- (1) Saving 1 (3) Loan usage 3
- (2) Marketing 2 (4) Business skills 4
- (5) Others 5, please specify.....

10. Do you think that the amount of credit approved to you is sufficient to run your business?

- (1) Yes 1 (2) No 2

11. Do you think that the amount of credit approved to you is sufficient to improve your living standards?

- (1) Yes 1 (2) No 2

Part 3: General information about the contributions of MFIs

1. How do you evaluate the women’s participation of MFIs services in the area?

- (1) Very high 1 (4) Low 4
- (2) High 2 (5) Very low 5
- (3) Fair 3

2. Do you use hired labor for your business?

- (1) Yes 1 (2) No 2

3. If your response is “Yes” on question “6”, what is the average monthly cost of labor for your business?
- (1) Below ETB 500 1 (3) ETB1001 -ETB1500 3
(2) ETB 501- ETB1000 2 (4) More than ETB1501 4
4. After joining the MFIs program, do you think the amount of income is increased?
- (1) Yes 1 (2) No 2
5. After joining the MFIs program, do you think the amount saving is increased?
- (1) Yes 1 (2) No 2
6. After joining the MFIs program, do you think the housing condition is improved?
- (1) Yes 1 (2) No 2
7. Do you think that there is improvement of access to educational facilities of your family?
- (1) Yes 1 (2) No 2
8. Do your family and you have access to health services currently?
- (1) Yes 1 (2) No 2
9. Do you think that your access to medical facilities has improved after your microfinance program?
- (1) Yes 1 (2) No 2
10. What is the status of the household nutrition currently after joined to MFIs program?
- (1) Improved 1 (2) Remain constant 2 (3) Worsened 3

Part 4: problems and their remedies taken by MFIs and the government

1. What are the problems faced to you in relation to the microfinance program?
- 1) Little amount of loan for intended objectives 1
2) Short term loan 2
3) Shortage of working area to operate the business 3
4) Long processing period to take loans
5) Market related issues 5
6) Others 6, please specify it.....

2. Does the microfinance institution provide training and consultancy services to the clients how to improve the problems?
 (1) Yes 1 (2) No 2
3. Does the institution supervise your activities on how to use the money?
 (1) Yes 1 (2) No 2
4. Are there measures taken by the government to support the microfinance services?
 (1) Yes 1 (2) No 2
5. If your answer is “yes” on question no. “7”, what are the roles of government to assist your business or to improve the living standard of the community in associated with microfinance services?
- 1) Providing Consultancy 1
 - 2) provide Training center 2
 - 3) Providing working area for intended purpose 3
 - 4) Searching market 4
 - 5) Others 5, please specify.....

Appendix-2

Descriptive statistics for ADCSI

| | BRR | OCR | OSS | OUTR | PAR | ROA | ROE |
|--------------|----------|----------|----------|-----------|-----------|----------|-----------|
| Mean | 15.51000 | 16.20000 | 120.3280 | 217805.0 | 2.546000 | 1.292000 | 6.090000 |
| Median | 16.00000 | 16.00000 | 109.5500 | 230839.0 | 2.750000 | 1.000000 | 7.870000 |
| Maximum | 27.42000 | 27.40000 | 171.0000 | 276075.0 | 3.900000 | 2.300000 | 9.980000 |
| Minimum | 7.400000 | 9.800000 | 90.50000 | 140546.0 | 1.000000 | 0.560000 | 1.300000 |
| Std. Dev. | 7.756623 | 6.961322 | 34.58803 | 55192.72 | 1.401456 | 0.808900 | 4.267224 |
| Skewness | 0.589661 | 0.830528 | 0.570995 | -0.394865 | -0.128856 | 0.333011 | -0.312087 |
| Kurtosis | 2.194423 | 2.414467 | 1.801316 | 1.710496 | 1.257625 | 1.319196 | 1.214516 |
| Jarque-Bera | 0.424949 | 0.646240 | 0.571038 | 0.476353 | 0.646310 | 0.680977 | 0.745323 |
| Probability | 0.808581 | 0.723887 | 0.751624 | 0.788064 | 0.723862 | 0.711423 | 0.688899 |
| Sum | 77.55000 | 81.00000 | 601.6400 | 1089025. | 12.73000 | 6.460000 | 30.45000 |
| Sum Sq. Dev. | 240.6608 | 193.8400 | 4785.327 | 1.22E+10 | 7.856320 | 2.617280 | 72.83680 |
| Observations | 5 | 5 | 5 | 5 | 5 | 5 | 5 |

Descriptive statistics for OCSSCO

| | BRR | OCR | OSS | OUTR | PAR | ROA | ROE |
|--------------|----------|----------|----------|-----------|----------|-----------|-----------|
| Mean | 12.74200 | 4.038000 | 123.8400 | 715143.8 | 3.574000 | 1.820000 | 8.548000 |
| Median | 11.65000 | 4.030000 | 118.0000 | 775161.0 | 3.330000 | 1.960000 | 9.300000 |
| Maximum | 18.77000 | 5.400000 | 152.0000 | 987828.0 | 4.670000 | 2.240000 | 10.10000 |
| Minimum | 9.300000 | 3.000000 | 102.0000 | 370982.0 | 2.770000 | 1.200000 | 5.000000 |
| Std. Dev. | 3.597106 | 0.892648 | 23.11121 | 258209.4 | 0.760480 | 0.420476 | 2.096693 |
| Skewness | 1.040666 | 0.512120 | 0.251665 | -0.309548 | 0.478612 | -0.564701 | -1.142902 |
| Kurtosis | 2.739702 | 2.291111 | 1.319008 | 1.550187 | 1.819816 | 1.877041 | 2.725667 |
| Jarque-Bera | 0.916603 | 0.323248 | 0.641474 | 0.517758 | 0.481065 | 0.528455 | 1.104199 |
| Probability | 0.632357 | 0.850761 | 0.725614 | 0.771916 | 0.786209 | 0.767799 | 0.575740 |
| Sum | 63.71000 | 20.19000 | 619.2000 | 3575719. | 17.87000 | 9.100000 | 42.74000 |
| Sum Sq. Dev. | 51.75668 | 3.187280 | 2136.512 | 2.67E+11 | 2.313320 | 0.707200 | 17.58448 |
| Observations | 5 | 5 | 5 | 5 | 5 | 5 | 5 |

Appendix-3

Financial performance analysis formula

1. $OSS = \text{Financial revenue} / (\text{Financial expense} + \text{impairment losses on loans} + \text{operating Expense})$
2. $ROA = \text{Net Operating Income after tax} / \text{Average Total Asset}$
3. $ROE = \text{Net Operating Income after tax} / \text{Average Total Equity}$
4. $\text{Borrower ratio} = \text{Operating Expense} / \text{Average Number of Active Borrowers}$
5. $PAR = \frac{\text{Sum of Unpaid Principal Balance of All Loans with Payments Past Due}}{\text{Total Gross Outstanding Loan Portfolio (Sum of Principal Outstanding of All Loans)}}$
6. $\text{Operating Cost Ratio} = \frac{\text{Operating Costs during period}}{\text{Average Outstanding Loan Portfolio}}$