



SEEK WISDOM, ELEVATE YOUR INTELLECT AND SERVE HUMANITY!



ASSESSMENT OF FINANCIAL PERFORMANCE OF MICROFINANCE INSTITUTIONS IN
ETHIOPIA

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF
SCIENCE IN ACCOUNTING AND FINANCE

BY

EYERUSALEM WONDIMU

ADVISOR

TEMESGEN WORKU (PHD)

Addis Ababa, Ethiopia

Apr, 2023

ADDIS ABABA UNIVERSITY
COLLAGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE
GRADUATE PROGRAM

This is to certify that this thesis is prepared by Eyerusalem Wondimu, entitled; “Assessment of Financial Performance of Microfinance Institutions in Ethiopia” and submitted to the Collage of Business and Economics in partial fulfillment of the requirements for Degree of Master in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Approved by:

Dean, Graduate studies _____ Signature _____ Date _____

Advisor, Temesgen Worku (PHD) _____ Signature _____ Date _____

Internal Examiner _____ Signature _____ Date _____

External I Examiner _____ Signature _____ Date _____

ADDIS ABABA UNIVERSITY
COLLAGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE
GRADUATE PROGRAM
ENDORSEMENT

This thesis is submitted to the School of Graduate Studies of Addis Ababa University College of Business and Economics for my examination with my approval as a University advisor.

Temesgen Worku (PHD)

Signature

Date

ACKNOWLEDGEMENT

First and foremost, I want to thank the Almighty God and his Mother for their protection and assistance throughout my lengthy examination. Then I'd like to thank everyone who has given me nonstop guidance and encouragement throughout the duration of working on this thesis, most notably my advisor, Dr. Temesgen Worku, for his guidance, valuable steering, and supervision in writing my thesis. Second, I am grateful to my family for their support and constant monitoring throughout my life. Finally, I would like to thank the entire Addis Ababa University staff for providing me with a conducive environment in which to thrive academically and for providing me with the resources that I require.

Table of Contents

Contents	Page
List of Table.....	iv
List of Figure.....	v
Abstract.....	vi
ACRONYMS.....	vii
MFI: Micro Finance Institution	vii
ROA: Return On Asset	vii
MIX: Microfinance Information Exchange	Error! Bookmark not defined.
GMM: Generalized Method Of Moments	Error! Bookmark not defined.
CHAPTER ONE	1
1. INTRODUCTION	1
1.1. Background of the Study	1
1.2. Problem Statement	2
1.3. Research Questions.....	2
1.4. Objectives of the Study	2
1.4.1. General objective	2
1.4.2. Specific objective.....	3
1.5. Significance of the study	3
1.6. Scope of the study	3
1.7. Limitation	3
1.8. Organization of the study	3
CHAPTER TWO	5
LITERATURE REVIEW	5
2.1. Chapter Introduction	5

2.2.	Theoretical review	6
2.2.1	Definition of microfinance.....	6
2.2.2.	History of Microfinance.....	7
2.2.3.	Microfinance in Ethiopia	9
2.2.4.	Sustainability of microfinances.....	9
2.2.5.	Financial performance.....	10
2.2.6.	Security Administration	12
2.2.7.	Loan Product Management	13
2.2.8.	Loan Lending	14
2.3.	Empirical Review.....	14
2.4.	Research gap	18
2.5.	Conceptual framework.....	20
CHAPTER THREE		21
RESEARCH METHODOLOGY AND DESIGN		21
3.1.	Introduction.....	21
3.2.	Operational Definitions and Measurement	Error! Bookmark not defined.
3.3.	Research Approach	21
3.4.	Research Design.....	21
3.5.	Data Source and collection	21
3.6.	Target Population and Sampling of Respondents	22
3.7.	Sampling technique	22
3.8.	Data validity and reliability	23
3.9.	Data Analysis Method.....	23
CHAPTER FOUR.....		26
ANALYSIS FINDINGS AND DISCUSSION		Error! Bookmark not defined.
4.1.	Introduction.....	26

4.2. Response Rate.....	26
4.3. Reliability of the Questionnaire.....	26
4.4. Demographic Characteristics of Respondents.....	27
4.5. Descriptive results of variables.....	29
4.6. Correlation results.....	31
4.7. Regression results.....	33
4.8. Linearity Test.....	34
4.9. Homoscedasticity Test.....	34
4.10. Auto Correlation (Durbin Watson Test).....	35
4.11. Normality Test.....	36
4.12. Multi-collinearly test.....	37
4.13. Multiple Regression Model Results.....	38
4.14. Discussion of results.....	40
CHAPTER FIVE.....	42
CONCLUSION AND RECOMMENDATION.....	42
5.1. CONCLUSION.....	42
5.2 RECOMMENDATION.....	43
<i>Reference list.....</i>	<i>44</i>
<i>Appendix I.....</i>	<i>48</i>
<i>Appendix II.....</i>	<i>52</i>

List of Table

Table 4.1 Reliability results	24
Table 4.2 Demographic Characteristics	26
Table 4.3 Summary of Descriptive variables.....	27
Table 4.4 Correlational matrix	30
Table 4.5 Durbin Watson statistics	34
Tables 4.6 Multi-collinearly test of the independent variable.	35
Table 4.7. Model Summary	36
Table 4.8. ANOVA Result	37
Table 4.9. Coefficients	37

List of Figure

Figure 2.1: dependent and independent variables.....	18
Fig 4.1 Loan processing days, 2021.....	28
Fig 4.2 Loan processing days, 2021.....	29
Fig 4.3: P-P Plot of Regression Standardized Residual.....	32
Fig 4.4: Scatterplot of standardized residuals.....	33
Fig 4.5 Normality Test.....	35

Abstract

The purpose of this study was to assess the Assessment of Financial Performance of Microfinance Institutions in Ethiopia. More specifically, the study has attempted to investigate the effect of security administration, loan lending, and loan product management on financial performance of micro finance institutions. The study used mixed research approach in which both qualitative and quantitative research approaches to minimize the inherent limitations of the approaches. Explanatory sequential design allowed the researcher first to collect quantitative data and then gather qualitative data to provide explanation on the results of the quantitative study. The correlational results of this study showed the presence of positive and significant correlation between the independent variables and the dependent variable (financial performance). More specifically, Lending (loan processing and lending priority), Security administration, and product management have been found to be correlated positively and significantly with financial performance of MFIs of the studied firms (p value <0.05). Product management, Security administration, Lending (loan processing and lending priority) predicts 66.9% variability on financial performance rating. The study recommends the accesses to financial and non-financial services have been the key factor to the growth of small business owners in Ethiopia. Regarding to these MFIs should provide available and reasonable loan/credits as well as provide the participator loan criteria for micro and small enterprise in the country.

Key Words: *MFIs, Security Administration, Loan Lending, and Loan Product Management*

ACRONYMS

MFI: Micro Finance Institution

ROA: Return on Asset

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

Microfinance basically relates to all financial intermediation services such as savings, credit, funds transfers, insurance, pension and remittances among others by financial institution in both rural and urban areas to low income earners. As the MFIs continue to blossom around the world spreading the concept of microfinance in all the continents, researchers are interested to study whether microfinance institutions can be sustainable over time through their performance.

Financial performance is the measure of organization's achievement on its goals, policies and operations stipulated in monetary terms (Njuguna et al., 2017). It indicates the finance capacity, innovative work, competitiveness, the effort of workers, and the management style of the organization. It is a subjective ways of measurement to a company can use property from its primary mode of business and high revenues (Ferro & Weber, 2006; Taiwo et al., 2017). Literature show that micro finance institutions essentially operate on a combination of financial products (micro-credit, micro-leasing, micro insurance, micro-savings, and money transfers) targeting specific groups of customers (Ofeh & Jeanne, 2017; Bosco, 2019). Such good credit score management strategies can improve buyers and savers self-belief in firms (Taiwo et al., 2017).

Many factors affect the performance of micro finance institutions (Duncan et al., 2015; Kipkoech & Muturi, 2014) like financing decision, credit risk, capital (Simon, 2020; Tesfaye, 2018; Almansour et al., 2019) and also loan appraisal practices such as assessing nature of businesses, demanding collateral security, involvement of credit committees, confirmation of customer credit history (Katula & Kiriinya, 2018). Improving access to financial services is seen as a critical development tool in Ethiopia because it aids in the creation of jobs for the unemployed and increases the income and consumption of the excluded population, reducing poverty and contributing to the implementation or realization of the five-year transformation and development plan. Thus, the researcher need to study only firm specific factors such as security administration, loan lending, and loan product management. This study proposes to examine how and why firm (MFIs) specific factors affect financial performance of these institutions.

1.1. Problem Statement

Micro finance institutions provide services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services (Duncan et al., 2015; Almansour et al., 2019). Financial performance of micro finance institution is influenced by financing decisions, accountability, and debt collection process (Simon, 2020; Bakar et al., 2019). Ofeh and Jeanne (2017) found that the size of micro finance institutions measured in total assets, operation expense, and operation risk statistically and significantly affect their financial performance. Barker et al. (2019) stated that microfinance institutions have better practices and solutions for addressing any arising issue related to financial performance but still need to assess other factors that can affect their performance by incorporating additional firm specific, macro-economic factors and qualitative data (Tesfaye, 2018). Nasrin et al. (2018, p12.) recommend that “Future studies can use other measures (return on asset, operational self-sufficiency, financial self-sufficiency) as well as for more accurate evidence of repayment rate.” Katula, and Kiriinya (2018) added that “future scholars and researchers should seek to investigate the moderating effect of loan appraisal and financial performance of micro finance institutions and also have to examine the relationship between collateral securities and financial performance.” This study, therefore, proposes to examine the assessment of financial performance of micro finance institutions. The main research question of this study is; how and why do firm specific factors affect the financial performance of micro finance institutions?

1.2. Research Questions

Below are specific research questions of the study

- 1) What is the effect of security administration on financial performance of micro finance institutions?
- 2) How can loan lending affect financial performance of micro finance institution?
- 3) What is the effect of loan product management on financial performance of micro finance institution?

1.4. Objectives of the Study

1.4.1. General objective

To study the Assessment of Financial Performance of Micro Finance Institutions in Ethiopia.

1.4.2. Specific objective

1. To assess the effect of security administration on financial performance of micro finance institutions.
2. To assess the effect of loan lending on financial performance of micro finance institutions.
3. To assess the effect of loan product management on financial performance of micro finance institutions.

1.5. Significance of the study

Try to highlight the factors in the lending system, which affect financial performance. After the assessment of the problem in lending activity of micro finance institution, the study will give the recommendation that can provide possible solution to the problems. The research will be also served as a reference for other researchers who have interest to conduct research in the same or related topic and also, the study will contribute to micro finance employee mainly for credit officers and loan assistants

1.6. Scope of the study

The study has collected data for the target micro financial institutions including the past 5 years of their annual reports. Additionally, with regards to the conceptual delimitation of the study, as the dependent measure of the study variables, the researcher has used Financial performance rating measured by Return on asset, Net income, and Liquidity while the independent variable consists of Lending (Loan processing period, and Lending priority), Security administration (Types of security), and Product management (Types of loans and Average credit period).

1.7. Limitation

The study's challenges included a lack of financial resources, time constraints, and difficulties in obtaining information. However, in order to achieve the thesis' goals, several steps were put in place to minimize the challenges that arose. As a result, the research findings cannot be taken as absolute. Despite this, the researcher believed that the results were adequate and useful for the purpose for which they were conducted.

1.8. Organization of the study

The overall study is organized in to five chapters: The first chapter deals with an introduction that includes: background of the organization and study; problem statement; research questions; objectives; significance of the study; limitation and scope of the study. Then Chapter two

literature review includes summary of both empirical and theoretical reviews of past literatures, research gap and conclusion. Chapter three outlined about research methodology; design and ethical consideration. The fourth part deals about analysis of the research findings and interpretations. Finally, chapter five includes discussion of the study; summary of findings; conclusion and recommendation.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. Chapter Introduction

This part surveys various hypotheses which worry about the impact of credit administration on the financial performance of micro finance institution in Ethiopia. The analyst has assessed the scholastics work which has been finished in the piece of advance administration and monetary performance in financial institutions by using overlaying both the experimental and hypothetical audits of previously existing writing. Hypothetical audit will assist the specialist with developing information about the exploration point while the observational survey will give understanding the findings and ideas of prior scientists.

2.2. Operational Definitions and Measurement

A) Financial performance

Financial performance indicates the finance capacity, the profitability of the institutions, and it indicate gain or loss effect of the products given by the institutions. By using effort of workers the organizations may achieve good financial performance. In this study, ROA was used to measure the status of the firm or financial performance of the institution whether it is performed well or not.

B) Loan Product Management

This study covers the types of loan micro-financial institutions provide and credit periods of these products, which are operationalized and measured as follows: Types of loan mean the loans categories given by micro finance institutions. It is measured by types of loans offered by the institution. Average credit period means the number of years that loans will be paid or are required to be paid by borrowers. This variable measured by number of days.

C) Security Administration

In this study, security administration refers to the types of guarantee or security the micro-finance institutions require of a borrower. It was measured in terms of the number of the different types of security the institutions require.

D) Loan Lending

In this study, lending is operationalized in terms of the period the institutions take to process loan and the sector which they give priority to. Thus, loan processing period is the number of days a

MFI takes to process the loan from date of application to date of disbursement. Lending priority, on the other hand, refers to the economic sector to which institutions offer highest loans.

2.2. Theoretical review

The theoretical review of the study look at issues about the logical foundation on which the examine took place and from the relation among the theoretical feature and practical additives of the examine to be assumed. The study discovers the following theories that relate to the Variables and the look at generally.

2.2.1 Definition of microfinance

Various creators and associations have defined Microfinance institutions in various ways. Anyway the idea or the meaning of the definitions is normally something very similar in which microfinance alludes to the arrangement of financial administrations; fundamentally savings and credit to poor people and low income families that don't approach business banks administration. Microfinance is a method accepted by an administration as system to empowers needy individuals leaves in un created nations with less security for this situation low income worker individuals were get working capital as an advance from micro finance to begin their own work. Micro finance advanced in the 1980s as an improvement approach that intends to benefit the (dynamic) poor generally as reaction to the disappointment of designated sponsored modest credit programs in such projects, benefits mainly went to those with associations and influenced as opposed to the objective recipients enormous advance misfortunes amassed, and successive recapitalization were needed to continue operating suggesting the requirement for another methodology (Gebrehiwot, 2001). Microfinance institutions basically work on a combination of financial items (micro-credit, micro-leasing, micro insurance, micro-savings, and cash moves) targeting explicit gatherings of clients (Ofeh and Jeanne,2017). The main capacity of microfinance institutions is to get stores from individuals who have savings these stores are kept in different kinds of records opened in the bank (Bosco, 2019).

Microfinance is an exhaustive gathering of administrations, which includes microcredit, microcredit is conveyance of credit administrations to low income gatherings. Sisay, (2016) said that MFIs are viewed as playing a job in the production of monetary freedom, and in destitution lightening. To gain their great objective which is easing destitution, MFIs ought to have the option to offer financial assistance proficiently and viably on a maintainable way. To be

practical, MFIs need to create satisfactory profits to cover their financial expenses, charges of administration, and credit misfortune arrangements. To sum up that MFIs is the method of contributing entrepreneurs by giving admittance to capital creation and furthermore the public authority of less created country utilize best micro finance technique deliberately to diminish the quantity of un business and the profitability of MFIs were increasing at increasing rate.

Microfinance has characterized many discoveries and new products that have been made in microfinance throughout the twentieth century. Microfinance is just one of the numerous innovative concepts that capitalism has permitted to emerge in this field. The goal of the clients that microfinance helps distinguishes itself from many other findings. Microfinance reaches a huge number of impoverished people, allowing them access to financial services such as loans and deposits, insurance, and others, even as most new concepts target the world's wealthiest people. Because there are various informal ways in which people borrow money and save money, access to financial services must be considered formal. Microfinance has been accepted not only as a financial mean to target specific people but it realize also a social aspect contributing to poverty reduction, women empowerment, economic development and employment creation (Iezza ,2010). According to Robinson, (2001) definition: Microfinance alludes to limited scope financial administrations principally credit and savings-given to individuals who involved in homestead or fish or crowd; who work in little endeavors or microenterprises where merchandise are delivered, reused, fixed, or sold; who offer types of assistance; who work for wages or commissions; who gain income from renting out modest quantities of land, vehicles, draft creatures, or machinery and devices; and to others and gatherings at the neighborhood levels of developing nations, both rustic and metropolitan (Robinson, 2001).

2.2.2. History of Microfinance

The thoughts and yearnings towards microfinance are not new. Little, informal savings and credit bunches have worked for quite a long time across the world, from Ghana to Mexico to India and then some (Helms, 2006). In Europe, as ahead of schedule as the fifteenth century, the Catholic Church established pawn shops as an option in contrast to usurious moneylenders. These pawn shops spread all through the metropolitan regions in Europe all through the fifteenth century. Formal credit and savings institutions for the poor have additionally been around for ages, offering financial administrations for clients who were customarily dismissed by business

banks. The Irish Loan Fund framework, begun in the mid-1700s, is an early (and seemingly perpetual) model. By the 1840s, this framework had around 300 assets all through Ireland (Helms, 2006).

Then again in the mid-1800s a financial association that was credit relationship to serve predominantly ranchers in rustic regions dependent on agreeable principles was established by Friedrich Wilhelm Raiffeisen in Germany and extended quickly within Germany and later since it was fruitful likewise to the remainder of Europe, North America and developing nations past. The focal point of these helpful financial institutions as savings preparation in rustic regions that endeavor to show helpless ranchers how to set aside cash and use it. In the mid-1900s the idea of Raiffeisen started to show up with variations in pieces of provincial Latin America (Helms, 2006).

In Bangladesh Professor Muhammad Yunus who was the Nobel Prize winner in 2006, dispensed first advances from his own pocket to a gathering of rustic ladies in Jobra in 1976 and effectively fostered the idea of microfinance with his Grameen Bank all through the nation and later the entire world (Ledgerwood, 1999). The Grameen bank, which is currently serves more than 2.4 million customers (94 % of them ladies) and is a model for some nations (Ledgerwood, 1999).

Beginning during the 1980s, the financed, designated credit model upheld by numerous benefactors was the object of consistent analysis, on the grounds that most projects aggregated huge advance misfortunes and required successive recapitalization to continue operating. It turned out to be increasingly more apparent that market-based arrangements were required. This prompted another methodology that thought about microfinance as an integral piece of the generally speaking financial framework. Accentuation moved from the quick dispensing of sponsored credits to target populaces toward the building up of neighborhood, sustainable institutions to serve poor people. In the mid-1990s the expression "microcredit" was supplanted by "microfinance" which included acknowledges as well as other financial administrations for destitute individuals (Elia, M. 2006). The introduction of the term microfinance followed the achievement of numerous microcredit software engineers all throughout the planet and in 1997, during the primary Microcredit Summit, 2,900 representatives from 137 nations representing around 1,500 associations accumulated in Washington, D.C. During that event the introduction of the worldwide industry of microfinance was officially perceived. Since then the center began to change and move from the predominant welfarist thought, where just the arrangement of

credit was viewed as significant, to the need of becoming financially sustainable through the arrangement of a total scope of financial items and to contact more individuals.

2.2.3. Microfinance in Ethiopia

Initially, micro-acknowledge began as an administration and non-government associations persuaded plan. Following the 1984/85 extreme dry spell and famine, numerous NGOs began to offer micro acknowledge along for their help exercises albeit this was on a restricted scale and not in a sustained way (Alemayehu, 2008).

In Ethiopia micro finance foundations started their activity in Nineteen Seventies. Nowadays extra than 40 micro finance foundations are passed off, they occupied with be acknowledge store and give advance to metropolitan and country areas. "Financial performances of micro finance institution in Ethiopia have preferable monetary situation over other 10 greatest economies in sub Saharan Africa" (Solomon, Hitsoshi, And Masahiro, 2019). In any case, up to realize Ethiopia has still positioned as least created country that need helps, reserves or any commitment from other created (progressed) country for this situation financially further developed micro finance institution play their own part in the improvement of the nation and lessen the hole among most unfortunate and most extravagant social orders in the nation of Ethiopia.

The establishment of sustainable MFI that reach a large number of rural and urban poor who are not served by the conventional financial institutions, such as the commercial banks, has been a key component of the new development Strategy of Ethiopia. Profitability is an appropriate device for achieving long term viability and sustainability of the microfinance industry. At the micro level, profitability is a precondition to a competitive microfinance industry and the cheapest source of capital, without which no firm would attract external capital (Geda, 2008).

2.2.4. Sustainability of microfinances

An MFI's financial sustainability is described as its ability to cover all of its expenses with revenue and generate a margin to finance its expansion, which is the same as long run profitability. Being a lucrative and sustainable MFI also adds discipline to the MFI, tightens up its own function or operation, and leads to better products in general. Microfinance provides a sustainable source of funding for those in need, while also assisting in the reduction of inequities. In today's capitalist environment, if one's goal is to ensure the organization or institution's long-term existence, sustainability MFIs are critical. If microfinance is to service millions of

impoverished households, it must demonstrate its viability in order to attract the necessary funding.

Profitability is an effective tool for ensuring the microfinance industry's long term viability and sustainability. Profitability is a precondition for a competitive microfinance business and the most cost-effective source of capital; without it, no firm would seek external funding. Profits from MFIs can be a valuable source of equity if they are reinvested, which can help to maintain financial stability. Furthermore, market sources of capital are only available to MFIs who have established a profitable business model. Remarkable earnings are critical in guaranteeing MFI's stakeholders, including investors, borrowers, suppliers, and regulators, by reducing the likelihood of a financial disaster. At the macro level, a profitable microfinance industry is better placed to overcome negative shocks and contribute meaningfully to the stability of the overall financial system (Muriu, 2011). A thriving microfinance industry is critical to the micro banking system's long-term stability. Low profitability reduces MFIs' ability to absorb negative shocks, which has an impact on solvency. Profitability shows how MFIs operate in the context of their environment, and it should reflect efficiency, risk management capabilities, competitive strategies, management quality, and capitalization levels.

2.2.5. Financial performance

Financial performance is the proportion of associations' accomplishment on the objectives, strategies and activities specified in money related terms (Njuguna, Gakure, Waititu, and Katuse, 2017). Financial performance indicates the finance limit, innovative work, intensity, the work of laborers and furthermore it indicate the administration style of the association and furthermore financial performance measure the situation with the firm if the firm perform well. Financial performance is ways that action how the financial institution or organizations utilize their asset proficiently and successfully. The main exercises of Micro finance institutions (MFIs) are to work with saving for their part and furthermore they give hint about asset, cost, profit and capital administration. Financial performance is emotional methods of estimation to an organization can utilize property from its essential method of business and high incomes. The term is utilized as a norm of an association's essential financial wellbeing over a given period. Financial performance indicators, likewise alluded to as key generally speaking performance indicators, are quantifiable estimations used to choose, track, and venture the monetary performance of an institution. The different viewpoint on which the MFI performance is to be estimated has made two contrasting

yet having similar objectives way of thinking about the MFI industry: the Welfarist methodology and the Institutions approach. The Institutions: According to the Institutions school thought financial deepening is the main point of microfinance. That is, the setting up of a different arrangement of "sustainable" financial intermediation for poor people who are either dismissed or are underserved by the formal financial framework. The activists of this way of thinking give accentuation to additional on the accomplishment of financial independence, expansiveness of effort (quantities of customers), profundity of effort (levels of destitution came to) and positive customer sway. The interest of the methodology is that the institutions abstain from a wide range of sponsorships as they insist on financial independence (Nelson, 2011). The institutionists concentrate and accept that in request to viably battle the issue of destitution, it is important to assemble a microfinance industry as a framework in which ready to arrive at an enormous number of individuals. In request to arrive at an enormous number of individuals an immense measure of financial assets ought to be contributed from MFIs them-self instead of contributors give is essential. The institutionists start from the essential and clear presumption that contributors can't sponsor enough MFIs to allow them to offer financial types of assistance to all of the potential microfinance customers. They additionally accept that the best way to conquer this constraint is to draw in private wellsprings of capital and this in turn requires MFIs to be sustainable and profitable (Elia, M. 2006). According to this point sustainable financial institutions that offer financial types of assistance to the poor are vital if the main objective is a generous destitution decrease. The accentuation not on profundity of effort (level of destitution of customers) rather should be put on expansiveness of effort (number of customers came to). In the event that the framework can't increase the quantity of customers came to, it would bomb the objective of neediness decrease. Moreover, institution accept and center that if the methodology of building sustainable MFIs is utilized the least fortunate will likewise profit from it, while the opposite way around of targeting the most unfortunate with profoundly sponsored projects will have a low generally sway because of the restricted and unsteady giver funding. The institution position has plainly obtained accomplishment within the microfinance local area (Elia, M. 2006). The Welfarist School: independent work of the more unfortunate of the monetarily dynamic poor, particularly ladies is their main goal. Their interest depends in the "family" and they give more accentuation on the profundity of effort (the degrees of neediness came to). They are more worried about the utilization of financial administrations to minimize the impacts of intense

destitution among individual members just as networks. The focal point of this way of thinking is on the sudden improvement in the prosperity of members. However there are critical lines of contrasts between the two ways of thinking, they have a few likenesses too. In however much the two methodologies try to take care of the issue of financial necessities of poor people, microfinance exercises should target achieving the goals of the two methodologies (Nelson, 2011). The welfarist methodology centers around profundity (number of customers came to) instead of broadness of effort (destitution level of customers) and acknowledge endowments on an ongoing premise. Welfarists acknowledge endowments as they accept and center that in case sustainability is considered as an essential prerequisite, the achievement of the social mission of microfinance is in danger. The focal point of consideration is currently the customers that are served instead of the institution or developing self-sustained industry and furthermore the welfarist acknowledge the endowments or required appropriations on ongoing premise and this school not simply centers around financial independence as an essential apparatus (Elia, M. 2006).

2.2.6. Security Administration

The act of putting up security in return for an advance has for quite some time been a piece of the lending system between Micro Finance Institutions (MFI) and individuals. Advance insurance can be utilized to improve advance security and debilitate default subsequently ensuring wellbeing of assets. MFIs for the most part secure their credit using ensure which is accomplished through part's portions and stores within the association, except if the advance applied for is equivalent or not exactly a part's complete savings. MFIs officials should ensure that the borrower and the underwriter have appropriately consented to credit arrangement structures with underwriters stating unmistakably that they are ready to reimburse the advance in the event of default by the borrower to ensure that the advance security game plan is appropriately finished. Mutua (2016) indicates that MFIs officials should ensure that the borrower and the underwriter have appropriately consented to advance arrangement structures with underwriters stating unmistakably that they are ready to reimburse the advance in the event of default by the borrower to ensure that the advance security game plan is appropriately finished.

2.2.6.1. Types of security offered by MFIs

a) Group guarantees

MFI make available group lending. For example, a 5 character organization of community contributors may also borrow individual loans and assure each different. Consequently, they're reflectively borrowing the loans together considering if one individual can't pay returned his or her loan, the others need to pay it lower back or all of them chance defaulting and by no means borrowing from the MFI again.

b) Salaries of permanent employee

Institution employees can also come to be a personal guarantor to his or her institution to be eligible to acquire a loan.

c) Land lease

When the value of leased land shall be the amount actually paid by the lessee per the lease agreement or the location value estimated by MFIs employee and offered as collateral.

d) Saving in various institutions

Many customers held their money on various institutions especially on banks in different types of deposit methods (time deposit and demand deposit) also they get interest from that institution based on their deposit amount, in this case the MFIs take deposited amount from various institutions as security or collateral to give loan for their customers.

e) Money paid for equib

The amount of money paid for “equib” by borrower is used as collateral. For example; customers open equib account on banks that amount paid for equib used as collateral for borrowers of MFIs.

f) Personal and machineries joint guarantee

A personal guarantee is a promise to pay off liabilities this is made by an individual in the place of one borrower or institution. In creating a personal guarantee, an individual promises to pay off the outstanding loan amount in case of the borrower's default or pledges his or her personal assets, which may be used to pay off the loan to the lender. Machineries include factory machineries and equipment, construction machineries and agricultural machineries are used as collateral.

2.2.7. Loan Product Management

Loan products offered by micro finance are from several kinds, since business loan, construction loan, education loan, and personal loan are among many others types. All loan products are either secured by collateral or guarantee (Itoo et al., 2015). Loan products range from short

period loan which are repaid within a span of one year to long period loans which takes more than one year for repayment.

- Types of loan
- Average credit period

2.2.8. Loan Lending

Katula and Kiriinya, (2018) revealed that loan appraisal practices such as assessing nature of businesses, demanding collateral security, involvement of credit committees, confirmation of customer credit history and development customer centered credit policies influenced financial performance of MFIs. However, it emerged that to some extent MFIs were finding it difficult to determine viability of business and their sustainability in the long term period. Further, it was noted that collateral security provided by members was not satisfactory but in some cases the applicant managed to access loan services and the ability of finding out the loan applicant history of loan repayment was also not a valid reason of approving loans. Loan lending evaluation is the appraisal of loan application with the intention of providing information on the ability of the applicant to repay the loan.

- Loan processing period
- Loan priority sector

2.3. Empirical Review

According to Muriu, (2011) exact review on determinants of profitability of African MFIs, under the review "what explains the low profitability of MFIs in Africa" attempted to find the elements contributing to profitability of MFIs. He utilized Generalized Method of Moments (GMM) framework using an uneven board dataset comprising of 210 MFIs across 32 nations operating from 1997 to 2008. The intermediaries for profitability were both ROA and ROE. Credit hazard estimated by the amount of the degree of advances past due 30 days or more (PAR>30) and as yet accruing interest is adversely and altogether identified with MFI profitability. This concentrate along these lines finds proof to help the guess that increased openness to credit hazard is ordinarily connected with lower MFI profitability.

Portfolio indicates to add up to reserves accessible for the MFI to use as advances to its customers. Portfolio quality is a proportion of how well or how best the institution can ensure this portfolio against all types of dangers. The credit portfolio is by a wide margin of MFI's the biggest resource (Nelson, 2011) and, also, the nature of that resource and in this manner, the

danger it models for the institution can be very hard to measure. Portfolio quality is a basic space of performance investigation, since the biggest wellspring of hazard for any financial institution dwells in its credit portfolio. For microfinance institutions, whose advances are regularly not supported by bankable insurance, the nature of the portfolio is totally significant (American Development Bank, 2003) Portfolio quality is a fundamental space of investigation, since it is the biggest wellspring of hazard for any financial institution. Consequently, however much as could be expected, MFI's should attempt to maintain the nature of their portfolios. For this review, portfolio quality is estimated as portfolio in danger more than 30 days.

The other review which is attempted by Lafourcade et al, (2005) Overview of the Outreach and Financial Performance of Microfinance Institutions in Africa by taking 163 MFIs from 25 nations show that MFIs all throughout the planet continue to exhibit low PAR > 30 days, with a worldwide normal of 5.2 percent yet African MFIs maintain somewhat high portfolio quality, with a normal PAR > 30 days of 4.0 percent, performing better compared to their partners in South Asia (5.1 percent), LAC (5.6 percent), and East Asia (5.9 percent). At the point when MFIs are confronted with helpless portfolio quality, they might discount the credits from their books or refinance the advances by extending the term, changing the installment plan, or both. The outcome shows that credit in danger is adversely connected with MFIs financial performance.

According to retail banking research which is finished by Dietrich and Wanzried, (2009) what determines the Profitability of Commercial Banks? New Evidence from Switzerland. The review attempt to explain determinants of bank profitability by classifying in to Bank explicit, macroeconomic and institutionalized factors and utilize uneven board information from 1999 to 2006 from 453 banks and utilize linear relapse strategy. The review reason that the capital proportion, which is defined as value over absolute resources, has a positive and critical impact on bank profitability in Switzerland as estimated by the profit from normal resources.

Functional Efficiency is performance measure that shows how well MFIs is streamlining its activities and considers the expense of the input or potentially the cost of yield. Effectiveness in cost the board ought to guarantee a more powerful utilization of MFIs advance capable assets, which might improve MFIs profitability. Higher proportions of operating costs to net advance portfolio show a less productive administration. Functional proficiency in managing the operating costs is one more measurement for the executives' quality. The performance of the

executives is often communicated subjectively through abstract assessment of the board frameworks, hierarchical discipline, control frameworks, nature of staff, and others.

According to the concentrate by Nimal Sanderatne, (2003) a review on determinants of financial feasibility, defined that the functional productivity and low administration costs have a significant bearing. Also, a review on financial performances, the review proclaimed that, numerous MFIs are not considered sustainable. By stating the reality, the scientist affirmed that the functional effectiveness is inevitable to draw in reserves. Dissanayake (2012), Operating effectiveness is intermediaries by operating cost proportion which is changed operating cost separated by changed normal gross advance portfolio and infers that Operating Expense Ratio, are genuinely huge indicator factors in determining Return on Assets Ratio.

Melkamu, (2012) Determinants of Operational and Financial Self-Sufficiency: he utilizes quantitative exploration approach using board information relapse as the main information examination procedure. The review depended on a six years optional information obtained from the midmarket data set for twelve chose MFI in Ethiopia. The investigation discovered that normal credit balance per borrower, size of a MFI, cost per borrowers and yield on gross advance portfolio influences the functional sustainability of Ethiopian MFIs altogether. While cost per borrower, number of dynamic borrowers and yield on gross advance portfolio influence their financial sustainability. The Study additionally discovered that MFIs in Ethiopia are functionally independent while they are not financially independent.

Yonas, (2012) on his review regarding determinants of financial sustainability of Ethiopian MFIs, using 6 years information for 12 MFIs from AEMFI; he closed three things. Initial, a great acknowledge portfolio, combined with the utilization of adequately exorbitant interest rates that permit a sensible profit and sound administration are instrumental to the financial sustainability of MFIs. Second, the level of ladies among the demographic has a frail genuinely non-critical adverse consequence on financial sustainability of MFIs lastly, customer effort of microfinance programs and the period of MFIs lesserly affect attainment of financial sustainability.

Mengstu (2020) concentrated on Based up on the above finding of the review, return on resource of Ethiopian micro finance institutions are mainly influenced by internal components than the outside factors. All the more explicitly, capital resource, size, and earning capacity are a critical internal drivers of profitability in Ethiopia. Indeed focusing and reengineering the institutions along the edge of this indicator could improve the profitability just as the performance of the

micro finance institutions in Ethiopia. The outcomes additionally indicate that MFIs ROA is emphatically and essentially influenced by MFI size; so they need to increase their sizes by selling more offers in order to profit from the degree and size of economies. Notwithstanding that gearing proportion have insignificant impact on the profit performance of Ethiopian micro finance. In any case, from outside factors all macroeconomic components with the exception of market focus have insignificant impact on the profit performance of Ethiopian micro finance institutions. While a large body of research on financial institutions financial performance has been undertaken in the conventional banking industry in Ethiopia, there are few works on micro finance institution sectors. Rigorous empirical evidence on Ethiopian microfinance institutions remains limited due to large number of micro finances and lack of up to date information. Moreover, it is uncommon to undertake a study to identify factors that affect microfinance institutions performance. The studies conducted in the areas of microfinance institutions in Ethiopia are few in number and did not give an emphasis to the factors that determine their performance.

Dissanayake, (2014) tried to investigate the determinants of profitability of MFIs in Sri-Lanka. The major objective was to see the relationship between different internal (MFI specific factors) and return on equity. For the study, debt to equity ratio, operating expense ratio, write-off ratio, cost per borrower ratio and personal productivity ratio as explanatory variables and ROA as explained variable have been used. The finding shows that, debt to equity ratio and operating expense ratios have negative statistical significance relation with ROE. On the other hand, write-off ratio and cost per borrower ratios have a positive and statistically significant relationship with ROE. However, personnel productivity ratio is not statistically significant determinant of ROE.

Ognore, and Kusa, (2013) has also conducted a research titled “Determinants of Operational Sustainability of Micro Finance Institutions” in Kenya. The major objective of the research was to find out the factors that affect the operations self- sufficiency and financial sustainability. In addition, it was intended to propose a more comprehensive and representative model for financial sustainability by creating an index to observe the financial performance of microfinance sector. In so doing, the study utilized a descriptive research design and targeted 30 microfinance institutions (MFIs) to collect the required data and analyzed using multiple regression models. Capital/ asset ratio and Operating Expenses/Loan Portfolio indicators as independent variable and Operational Self Sufficiency ratio as dependent variable were used in the regression model.

Accordingly, the research revealed that the factors that affect the operations and financial sustainability are capital/ asset ratio and operating expenses/loan portfolio.

Wale, (2011) has done research on performance analysis of sample microfinance institutions of Ethiopia using productivity and efficiency ratios, financial viability indicators, profitability indicators, and leverage and capital adequacy ratios. However, the research did say nothing about determinants of performance of microfinance institutions apart from appraising the performance of Ethiopian MFIs in terms of various criteria by comparing with the Micro banking Bulletin (MBB) benchmark.

In our country, studies in relation to determinants of MFIs profitability considering both internal and external factors are rare or few, but studies regarding performance of MFIs were conducted by various scholars like, (Negash et al., 2020; Geda, 2008; and Wale, 2011). The study by Yonas, (2012), tried to see the determinants of performance by using proxy of financial and operational sustainability of Ethiopian MFIs. Gudeta, (2013) and Zergaw, (2015) studied determinants of profitability of Ethiopian microfinance by using microfinance internal and macroeconomic factors. As to the researchers' knowledge, there is no research conducted in relation to the determinants of the financial performance in microfinance institutions in Ethiopia after 2015. Further, the studies before 2015 used limited variables that only focus on MFI using only macroeconomic factors. Most of the empirical studies missed an important variable namely product management, security administration, and lending (loan processing and lending priority). The researcher has taken this as a gap and included it as additional variable. Under this study also included a new microfinance institution that was not included in previous empirical studies. Therefore, the main objective of this study is to identify the determinants of financial performance of micro finance institutions in Ethiopia.

2.4. Research gap

Barker et al. (2019) stated that microfinance institutions have better practices and solutions for addressing any arising issue related to financial performance but still need to assess other factors that can affect their performance by incorporating additional firm specific, macro-economic factors and qualitative data (Tesfaye, 2018). Nasrin et al. (2018, p12.) recommend that "Future studies can use other measures (return on asset, operational self-sufficiency, financial self-sufficiency) as well as for more accurate evidence of repayment rate." Katula, and Kiriinya (2018) added that "future scholars and researchers should seek to investigate the moderating

effect of loan appraisal and financial performance of micro finance institutions and also have to examine the relationship between collateral securities and financial performance.” This study, therefore, proposes to examine the determinant of financial performance of micro finance institutions.

2.5. Conceptual framework

The research adopted the conceptual framework illustrated in the figure below. The independent variables identified are loan processing period, lending priority sector, types of security, types of loan products, average credit period. These variables would be investigated in order to determine their significance for financial performance.

Independent variables

Dependent Variable

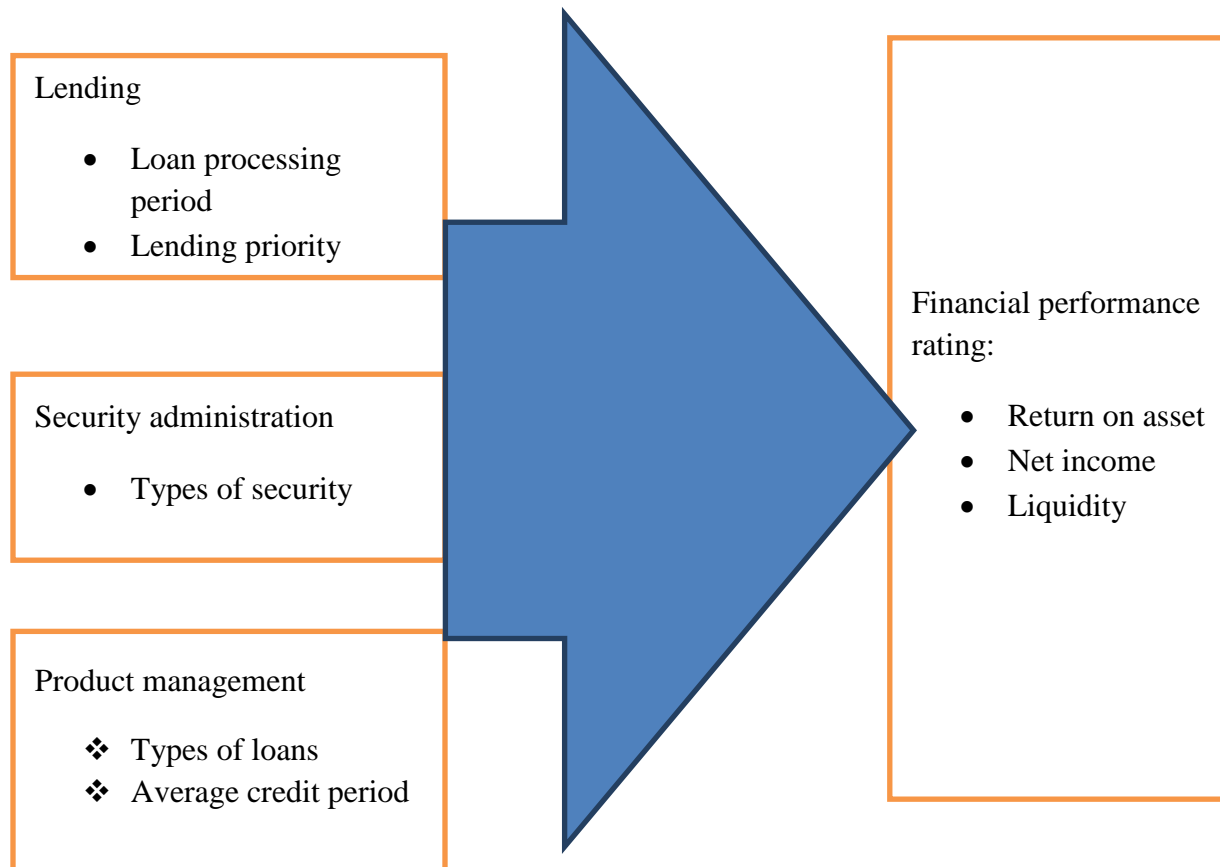


Figure 2.1: dependent and independent variables

CHAPTER THREE

RESEARCH METHODOLOGY AND DESIGN

3.1. Introduction

This chapter deals with the core methods and procedures used to answer the research questions and meet the objective of the study. A general description of the research subject is provided followed by explanation of the research design, data collection, sampling and data analyses techniques employed. Microfinance institutions in Ethiopia that are licensed under National Bank of Ethiopia, and which mainly operate in the capital, Addis Ababa, are the subjects of this research, and they are taken as the target population.

3.2. Research Approach

The study used mixed methods approaches. According to Creswell (2003), both qualitative and quantitative research approaches have limitations, which can be minimized using the combined research approach. For example, quantitative approach may cause bias in reliability of findings because of the nature of the research problem, non-representativeness of the sample or the nature of questionnaires that predicts the clue. In addition, it is difficult to minimize the impact of human behavior using quantitative approach. Qualitative techniques can raise a researchers' depth understanding of the occurrence under investigation. The combined methods are aimed to complement one another and gather reliable information to draw representative outcome and conclusion. The researcher need this method because of its assumption to make good analysis based on qualitative and quantitative method.

3.3. Research Design

Sequential explanatory strategy was used. Explanatory sequential design allows the researcher first to collect quantitative data and then gather qualitative data to provide explanation on the results of the quantitative study.

3.4. Data Source and collection

The data source that is going to be used are primary and secondary data. Primary data means principal data collected from initial person but secondary data is the records which have been already amassed via and readily to be had from different sources. For the quantitative study data on return on asset, net income and liquidity rate was collected in the annual reports of the micro-financial institutions. This type of data was collected in the way of reviewing the annual reports. For the qualitative study records on loan lending, security administration and product

management was collected from the employee of institutions. This type of data was collected by using structured close and open ended questions.

3.5. Target Population and Sampling of Respondents

Microfinance institutions	Target population	Sample size (2 per MFIs)
Addis MFI	13	2
African village	6	2
Agar	5	2
Daynamic	10	2
Digaff	6	2
Eshet	8	2
Gasha	20	2
Grand	7	2
Gusagonofa	9	2
Meklit	8	2
Metemamen	10	2
Nsir	11	2
Ray	7	2
Sheger	9	2
Vision	12	2
Yemsirach	6	2
Total	190	32

Source: Researcher 2022

3.6. Sampling technique

Using purposive sampling method from 41 microfinance institutions operating in Ethiopia 16 institutions was covered in this research, because of their head office located in Addis Ababa. The researcher believes current data are not used for studies purpose as more in this case one year (2020) annual report was reviewed. For the purpose of the research 32 sample populations were taken that has been relevance to the study objectives, through purposive sampling from microfinance institutions. To address the researcher questions and to collect necessary data with short span of time and for the sake of management purposes at least two officers, one from

managerial and another from loan assessment positions from each institute was used in collecting the primary data.

3.7. Data validity and reliability

Validity is the accuracy and meaningfulness of all inferences, which can be primarily based totally on the study's results. Reliability is the capacity of study instruments to continually yield the identical outcomes when repeated measurements are taken under identical conditions.

The questionnaire was pre-tested in a pilot study to ensure its reliability in collecting the necessary information for the study. Because Cronbach's Alpha is used to measure internal consistency, it qualified in this study and was thus used to test the questionnaire's reliability. The Alpha measures internal consistency by determining whether a particular item measures the same construct. It is written as $\alpha = Np/[1+p(N-1)]$, where N is the number of items and p is the average inter-item correlation. Nunnally (1978) set the alpha value threshold at 0.6, against which the study was measured. A value greater than 0.6 indicates the presence of reliability while values below signify lack of reliability.

3.8. Data Analysis Method

Data from questionnaires and reports are categorized, organized and summarized, considering by they have scale and numeric values. For quantitative data analysis descriptive and inferential statistics was used. The cleared data was tabulated and fed to SPSS (Statistical Package for Social Science) to do the descriptive and inferential analyses. For qualitative data analysis coding and thematic analysis was used. The linear multiple regression model shown below also uses this processed data to find its unknown coefficients (K_0, K_i, e), for each financial institute.

$$Z = K_0 + K_1 * X_1 + K_2 * X_2 + K_3 * X_3 + K_4 * X_4 + K_5 * X_5 + e$$

Were;

Z = Financial performance

K_0 = intercept

$K_1 - K_5$ = coefficients

X_1 = loan processing period

X_2 = lending priority sector

X_3 = types of security

X_4 = types of loan products

X_5 = average credit period

e = error term

3.9. Test of assumption of linear regression

Multiple regressions employ a linear model that makes two primary statistical assumptions, multicollinearity and homoscedasticity. Those assumptions are not made from necessity but because the linear model is simpler than that includes both linear and non - linear constructs and simple models have long been known to have desirable properties (Mulaik, et., 1989).

The assumptions to be tested are;

- Homoscedasticity
- Normality test
- Multicollinearity and,
- Auto-correlation

3.9.1 Homoscedasticity

Heteroscedaticity is a systematic pattern in the errors where the variances of the errors are not constant. Heteroscdaticity implies that the variance of the residuals are not constant, but that they are different for different observations.

3.9.2 Normality test

The normality test is used to see if the data is well modeled by a normal distribution and to calculate how likely it is that the random variable underpinning the data is normally distributed.

3.9.3 Multicollinearity

Multcolinearity is the condition in which independent variables are inter-correlated, and it refers to the future of a sample rather than population as a whole. Multicollinearity arises when a linear relationship exists between two or more independent variables in a regression model. It practice rarely encounter perfect multicollinearity, but high multicollinearity is quite common.

3.9.4 Auto-correlation

Auto-correlation is the term for the correlation between residuals that is caused by the modification of the original data as well as the manipulation of the data through interpretation and extrapolation. The most basic and extensively used model is one in which the error terms u_t and u_{t-1} are related.

3.10. Ethical issue

Several ethical concerns were taken in to account in the research. Frist of all, the researcher obtained the necessary permits and consents from the appropriate authorities to collect data for

the study. The researcher avoided asking sensitive questions to the participants and also the respondents were not forced to reveal their own name or institutions name.

The study guaranteed the respondents, as did the researcher, that the data gathered, and the findings there of would and would not be used for purposes other than academic.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND CONCLUSION

4.1. Introduction

This chapter introduced data analysis, presentation and interpretation following the research objectives. The general purpose of this study was to assess determinants of financial performance of microfinance institution in Ethiopia. In this research, four year annual reports were used. The collected data was analyzed using demographics analysis, preliminary diagnostic testing and inferential statistics using the statistical package for social scientist (SPSS). The sample target microfinance was included 16 institutions those are: Gasha, Vision, Eshet, Digaff, Gusagonofa, Agar, Sheger, Grand, Africa Village, Meklit, Addis, Nisir, Metemamen, Rays, Daynamic, and Yemsirach.

4.2. Response Rate

This is the proportion of the sample that participated in the survey and returned their questionnaires as intended by the researcher and therefore termed as the response rate. The study issued 32 questionnaires and got back all of them, that is 100% response rate. This means that most of the participants who were contacted to participate in the study actually participated by giving valid responses to the study.

In this chapter, the collected data has been analyzed and interpreted. The chapter consists of introduction, respondents' demographic characteristics, labor supply, financing, technology, management, raw material, marketing, government regulation and incentive and infrastructure as a factor. Items of the questionnaire on service quality were Likert scaled using five points ranging between 1=Strongly Agree to 5=Strongly Disagree. In addition, some demographic descriptions of the respondents are collected.

4.3. Reliability of the Questionnaire

Table 4.1 Reliability results

Sub scales	Number of items	Cronbach's Alpha
Lending (loan processing and lending priority)	9	.817
Security administration	6	.799

Product management	4	.735
Financial performance rating	4	.727
Entire scale	23	.881

Source: Researcher and survey, 2022

As it is indicated on the above table Cronbach's coefficient alpha was calculated for each field of the questionnaire and the entire questionnaire. The values of Cronbach's Alpha showed that all of the results are more than acceptable, which fall in the range between 0.7 and 0.95. The resulting range is considered high as the result ensures the reliability of each field of the questionnaire. More over Cronbach's Alpha for the entire questionnaire shows the value of .881 which falls in an excellent range and it indicates reliability of the entire questionnaire. Therefore, based on the test, the results for the items are reliable and acceptable.

4.4. Demographic Characteristics of Respondents

Regarding the demographic variables of the respondents, their Gender, Age, Educational status, Jobs category and Experience were used for description. Accordingly, regarding the sex of the respondents, the majority of them 62.5% were males while the remaining 37.5% were female respondents from the industry. This reflects the composition of employees in the industry clearly showing the dominance of males in most positions. This sex compositions is also evident the lower number of female in the other areas of working environment in Addis Ababa.

Regarding the age composition of the respondents, 40.5% and 53.2% of them were in the age group 20 – 30 years and 31 – 40 years while the lowest concentration of the respondents found in the age range of 41 – 50 containing 6.3%.

Concerning the level of education of the respondents, the majority of 62.5% them were first degree holders followed by 37.5 % of the respondent who had second degree and above. Additionally, the remaining was diploma holders, and certificate and below is not chosen by respondent.

About the job category of respondents, 56.2 % of the respondents were manager while the remaining 43.8 % of the total respondents were senior and employees. This indicates the general

structure of respondents in terms of their job category which was dominated by manager and senior professionals while the junior positions were not found.

Lastly, concerning the experience level of respondents, 46.9% of the respondent had 1 – 4 years of experience while 40.6% of the participants had 4 – 6 of experience, the remaining respondent's 12.5% of the total respondents were 6 and above years of experience.

Table 4.2 Demographic Characteristics

Variables		Frequency	Percentage
Gender	Male	20	62.5%
	Female	12	37.5%
Age	20 – 30	13	40.5%
	31 - 40	16	53.2%
	41 – 50	3	6.3%
	above 50	-	
Educational status	Certificate and below	-	
	Diploma	-	
	First Degree	20	62.5%
	Second Degree and above	12	37.5%
Jobs category	Managerial	18	56.2%
	Senior	14	43.8%
	Junior	-	
Experience	less than a year	-	
	1 - 4 years	15	46.9%
	4 - 6 years	13	40.6%

	6 and above years	4	12.5%
Total		32	100%

Source: Researcher and survey, 2022

4.5. Descriptive results of variables

The following descriptive results of the variables (both the dependent and independent variables) were used to summarize the data using mean, standard deviation, and minimum, maximum as well as standard error.

Table 4.3 Summary of Descriptive variables

Variables	Mean		Std. Deviation	Skewness	
	Statistic	Std. Error	Statistic	Statistic	Std. Error
Lending (loan processing and lending priority)	3.7717	.05616	.83112	-.627	.164
Security administration	3.8869	.04938	.73079	-.890	.164
Product management	3.6020	.05263	.77880	-.586	.164
Financial performance rating	3.8276	.04938	.73081	-.941	.164

Source: Researcher and survey, 2022

Based on the above descriptive results of the study, Security administration was found the highest based on the mean (3.88), and standard deviation (.83112). Followed by Lending (loan processing and lending priority) with was the second place with mean (3.77) and standard deviation (.831). Additionally, product management and financial performance rating taken form the combination of (Return on asset, Net income and Liquidity ratings) had a mean value of 3.6020 and 3.8276 respectively.

The following graph shows the on the average, how many days MFI take to process loan from date of application to first disbursement of approved loan.

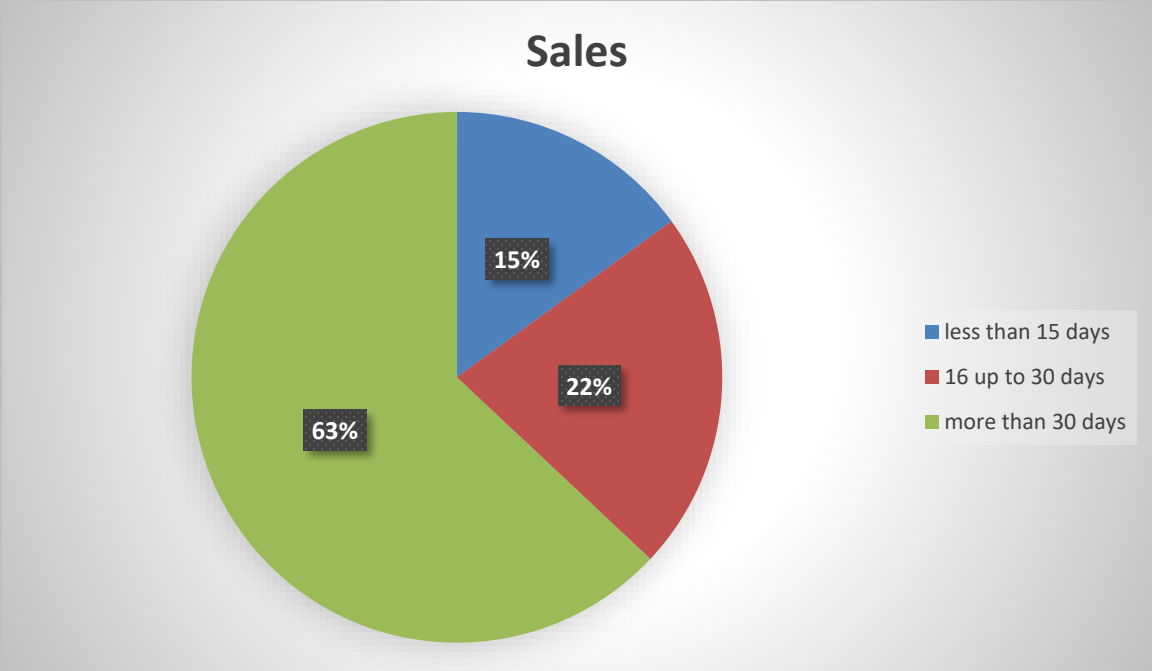


Fig 4.1 Loan processing days, 2021

Based on the above chart, regarding the length of loan processing time, 15% of the respondents have reported the processing time as less than 15 days followed by 22% of the respondent who have described the process can take 16 to 30 days. However, 63% of the respondent have expressed their views that MFIs take more than 30 days to process the loan application to first disbursement of approved loan. The development of the microfinance industry has led to a greater focus on the financial viability of microfinance institutions (MFIs). A variety of measurements have been used to measure MFI performance, many of which have been recognized as standard indicators. On closer examination, it is evident that these standard indicators are being calculated and applied in many different ways. This has led to confusion among practitioners and analysts, as well as to considerable distortions when comparing MFIs. The industry recognizes this deficiency and agrees that developing standard definitions of financial terms and some common indicators is an important next step in its development. Based on John, (2013), MFIs may consider various variables in to consideration while processing loans, such as Value of loans disbursed the value of all loans disbursed during the period, regardless of whether they are performing, non-performing or written off. This value should not be confused with gross loan portfolio (B1), which can be several times less than the value disbursed. Another factor to consider is number of loans disbursed, it is

considered when during the period. For MFIs using a group lending methodology, the number of loans should refer to the number of individuals receiving part of a group loan, unless the MFI specifies a different definition. The following section also presents the description of loan processing in terms of clients' satisfaction.

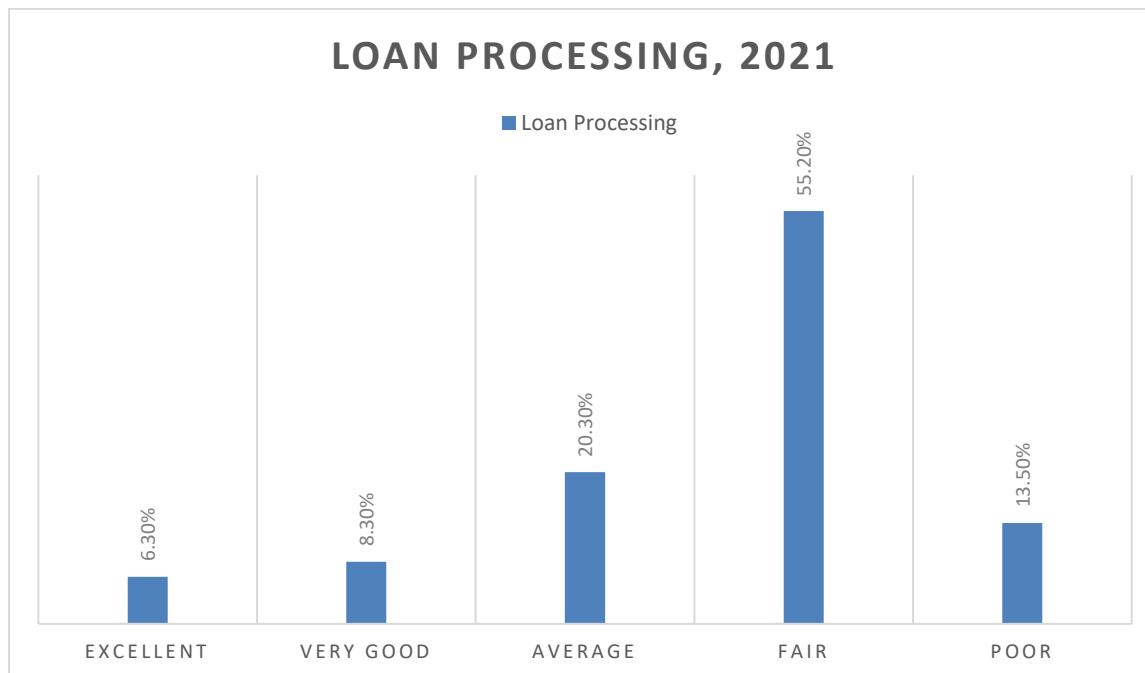


Fig 4.2 Loan processing days, 2021

Based on the result, the loan processing was rated by the majority of the respondents as fair (55.2%) while the next highest rating was average (20.3%) which indicates the presence of medium processing rating of MFIs. This result indicates that the loan processing was described as medium. According to (Dickson, 2001) customer satisfaction results in designing appropriate products and services and in the efficiency and effectiveness of the processes creating them. Improving MF processes can help the MFIs achieving such objectives and manage the risks derived from their operations. Several processes such as lending process, saving management process, and payments management process characterize the MFIs' operations. However, the loan process represents the most typical one.

4.6. Correlation results

Correlation analysis used to identify the direction and relationship between the variables. Correlation coefficient enables to quantify the strength of the linear relationship between two variables. Based on this, correlation analysis was made for independent variables and the

dependent variable as follow (Saunders et al., 2009). Utilize the Pearson connection coefficient to examine the strength and course of the linear connection between two continuous factors. The relationship coefficient can go in esteem from -1 to $+1$. The bigger the outright worth of the coefficient, the more grounded the connection between the factors. For the Pearson connection, an outright worth of 1 indicates an ideal linear relationship. A connection near 0 indicates no linear connection between the factors. The indication of the coefficient indicates the course of the relationship. On the off chance that the two factors will in general increase or lessening together, the coefficient is positive, and the line that addresses the relationship inclines up. In the event that one variable will in general increase as different reductions, the coefficient is negative, and the line that addresses the relationship inclines descending.

The following table show information with explicit connection esteems to delineate various examples in the strength and bearing of the connections between factors. To determine whether the connection between factors is huge, contrast the p-esteem with your importance level. Generally, an importance level (meant as α or alpha) of 0.05 functions admirably. A α of 0.05 indicates that the danger of concluding that a connection exists—when, really, no relationship exists—is 5%. The p-esteem lets you know whether the connection coefficient is altogether unique in relation to 0. (A coefficient of 0 indicates that there is no linear relationship.) P-esteem $\leq \alpha$ (0.05): The connection is genuinely critical If the p-esteem is not exactly or equivalent to the importance level, then, at that point, you can presume that the relationship is not the same as 0. P-esteem $> \alpha$ (0.05) : The relationship isn't measurably huge If the p-esteem is more noteworthy than the importance level, then, at that point, you can't reason that the connection is not quite the same as 0.

Table 4.4 Correlational matrix

Variables		Financial performance rating	Lending (loan processing and lending priority)	Security administration	Product management
Financial performance rating	Pearson Correlation	1	.698**	.791**	.645**
	Sig. (2-tailed)		.000	.000	.000

	N	219	219	219	219
Lending (loan processing and lending priority)	Pearson Correlation	.698**	1	.700**	.715**
	Sig. (2-tailed)	.000		.000	.000
	N	219	219	219	219
Security administration	Pearson Correlation	.791**	.700**	1	.692**
	Sig. (2-tailed)	.000	.000		.000
	N	219	219	219	219
Product management	Pearson Correlation	.645**	.715**	.692**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	219	219	219	219

Source: Researcher and survey, 2022

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Based on the correlational results of this study presented in the above table have showed the presence of positive and significant correlation between the independent variables and the dependent variable (financial performance).

More specifically, Lending (loan processing and lending priority), Security administration, and product management have been found to be correlated positively and significantly with financial performance of MFIs of the studied firms (p value <0.05).

4.7. Regression results

Regression analysis is a statistical measurement used for estimating the relationships among variables. It empowers to determine the strength of the connection among factors and the prescient force of the independent factors on the reliant variable. So, relapse assists a scientist with understanding what degree the difference in the worth of the reliant variable causes the adjustment of the worth of the independent factors, while other independent factors are held

unaltered. Relapse investigation is a method of measurably sorting out the factors that have indeed an effect. While there are many kinds of relapse examination, at their center they all examine the influence of at least one independent factors on a reliant variable. The following part likewise presents the relapse examination of relapse.

4.8. Linearity Test

The linearity of associations between the dependent and independent variables can be tested by looking at the P-P plot for the model. The closer the dots lie to the diagonal line, the closer to normal the residuals are distributed. As depicted in the below graph, the visual inspections of the p-p plot revealed that there exist linear relationship between the dependent and independent variables.

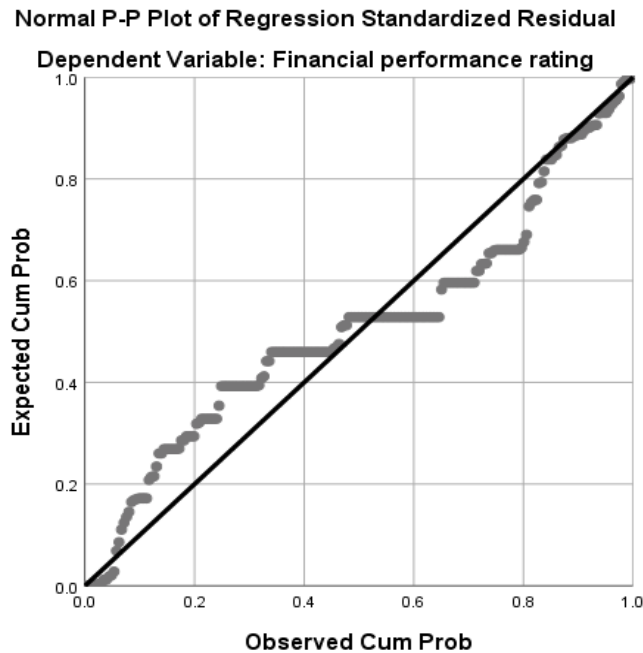


Fig 4.3: P-P Plot of Regression Standardized Residual

4.9. Homoscedasticity Test

The assumption of homoscedasticity refers to equal variance of errors across all levels of the independent variables (Osborne & Waters, 2002). This implies it requires even distribution of residual terms or homogeneity of error terms throughout the data. Homoscedasticity can be checked by visual examination of a plot of the standardized residuals by the regression standardized predicted value (Osborne & Waters, 2002). If the error terms are distributed randomly with no certain pattern, the problem is not detrimental for analysis. The scatterplot in

Fig 4.5 shows that the standardized residuals in this research are distributed evenly which shows that no violation of homoscedasticity.

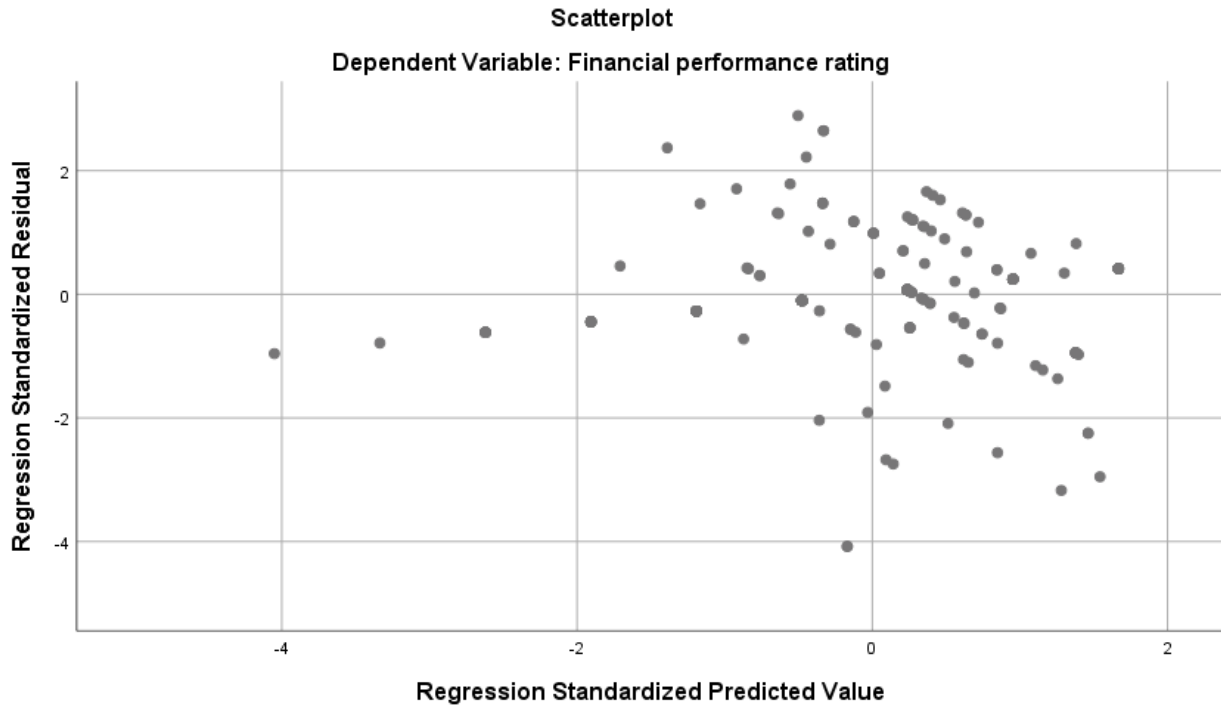


Fig 4.4: Scatterplot of standardized residuals

4.10. Auto Correlation (Durbin Watson Test)

Autocorrelation or independence of errors refers to the assumption that errors are independent of one another, implying that subjects are responding independently Stevens (2009). Durbin-Watson statistic can be used to test the assumption that our residuals are independent (or uncorrelated). This statistic can vary from 0 to 4. For this assumption to be met, the Durbin-Watson value needs to be close to 2 (Field, 2006). Values below 1 and above 3 are problematic and causes for concern. To check this assumption we need to look at the Model Summary box presented below.

Table 4.5 Durbin Watson statistics

Model	Std. Error of the Estimate	Durbin-Watson
1	.42324	1.637
a. Predictors: (Constant), Product management , Security administration, Lending (loan processing and lending priority).		
b. Dependent Variable: Financial performance rating		

Source: Researcher and survey, 2022

As Table 4.5 above reveals that errors are responding independently, and autocorrelation is not a concern with Durbin-Watson value of 1.637. Therefore, it is possible to say the auto-correlation test has been met.

4.11. Normality Test

Multiple regressions require the independent variables to be normally distributed. This means that errors are normally distributed, and that a plot of the values of the residuals will approximate a normal curve (Keith, 2006).

Frequency distribution comes in many different shapes and sizes. Therefore, it is quite important, to have some general description for common types of distributions. In an ideal world our data would be distributed symmetrically around the center of all scores. As such, if we draw a vertical line through the center of the distribution then it should look the same on both sides. This is known as a normal distribution and is characterized by bell-shaped curve. This shape basically implies that the majority of scores lie around the center of the distribution (Field, 2006). The normal distribution graph was shown on Fig 3 below and revealed that the assumption of normality of has been met.

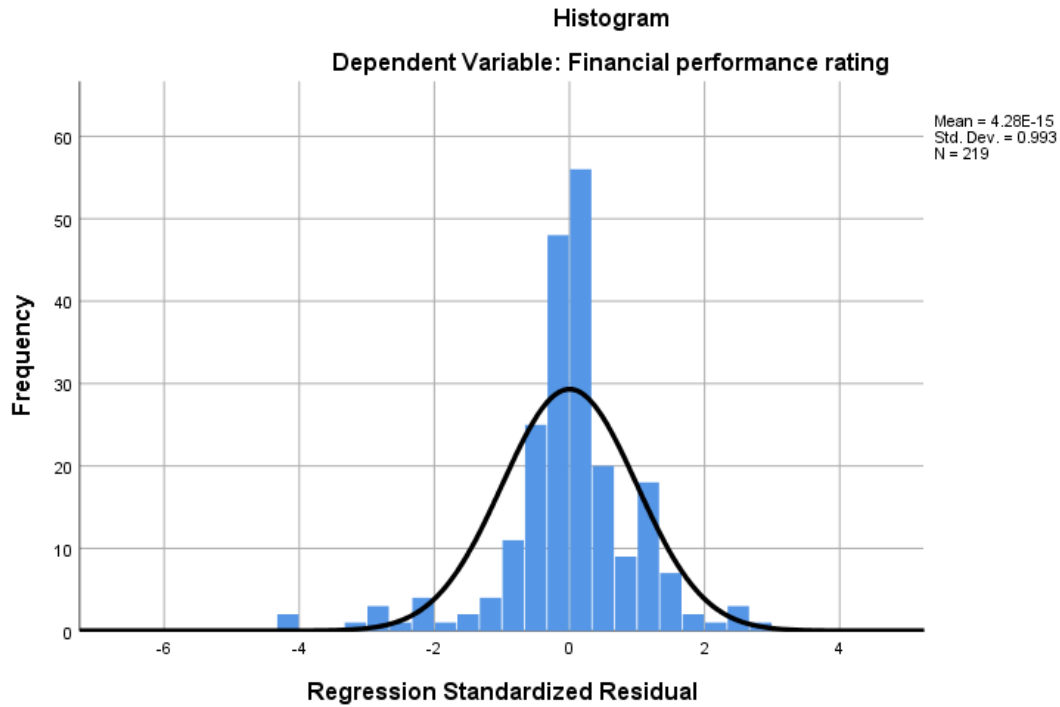


Fig 4.5 Normality Test

4.12. Multi-collinearly test

Multi-collinearity exists whenever an independent variable is highly correlated with one or more of the other independent variables in a multiple regression equation. It is a problem because of it under mines the statically significance of an independent variable. For this study result of multi-collinearity test of the dependent variables was display in the following table.

Tables 4.6 Multi-collinearly test of the independent variable.

Coefficients			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Lending (loan processing and lending priority)	.408	2.454
	Security administration	.435	2.301
	Product management	.416	2.401

a. Dependent Variable: Financial performance rating

Source: Researcher and survey, 2022

Note: - VIF = variance inflation factor.

TOL= Tolerance

The variation inflation factor (VIF) is a measure of the reciprocal of the complement of the inter-correlation among the independent variables. The decision rule is a variable whose VIF value is greater than 10 indicates the possible existence of the multicollinearity problem. Tolerance (TOL) is a statistics used to show the variability of the specified independent variable that is not explained by another independent variable in the model. It is also used by many researchers to check on the degree of Collinearity. The decision rule for tolerance is a variable whose TOL value is less than 0.1 shows the possible existence of a multi-collinearity problem (Gujarati, 2004). From the above table information, all VIF variables less than 10 and all tolerance (T) is greater than 0.1, therefore, this study has no multi-collinearity problem.

4.13. Multiple Regression Model Results

Table 4.7. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.818	.669	.665	.42324
a. Predictors: (Constant), Product management , Security administration, Lending (loan processing and lending priority)				
b. Dependent Variable: Financial performance rating				

Source: Researcher and survey, 2022

Based on the model summary of the predictor variables presented above (Product management , Security administration, Lending (loan processing and lending priority)), their correlation coefficient with the dependent variable (Financial performance rating) is .818 which indicates the presence of high positive correlation between the dependent and the independent variables as a whole. The independent variables (Product management, Security administration, Lending (loan processing and lending priority)) explain 66.9% variability on the dependent variable (Financial performance rating) since R square value is .669.

Table 4.8. ANOVA Results

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	77.917	3	25.972	144.990	.000 ^b
	Residual	38.513	215	.179		
	Total	116.430	218			
a. Dependent Variable: Financial performance rating						
b. Predictors: (Constant), Product management , Security administration, Lending (loan processing and lending priority)						

Source: Researcher and survey, 2022

The ANOVA table above indicates the existence of a significant regression model which predict the dependent variable based on the models independent variable (F statistics = 144.990, P value <0.01).

Table 4.9. Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.552	.161		3.436	.001
	Lending (loan processing and lending priority)	.217	.054	.247	4.013	.000
	Security administration	.565	.060	.565	9.501	.000
	Product management	.072	.057	.077	1.269	.206
a. Dependent Variable: Financial performance rating						

Source: Researcher and survey, 2022

Based on the coefficient table some independent variables were found significantly and positively affect financial performance while other variables were found to have non-significant statistical values with a commonly used threshold of alpha 0.05. These significant predicting variables include; Lending (loan processing and lending priority), and Security administration with a beta value of .217 and .565 respectively at alpha <0.05.

4.14. Discussion of results

According to this review, the credit processing for most of cases was over 30 days. Since 63% of the respondent have communicated their perspectives that MFIs require over 30 days to deal with the credit application to first payment of supported advance. Furthermore, in view of the correlational consequences of this review has showed that the presence of positive and huge relationship between the independent factors and the reliant variable (financial performance). All the more explicitly, Lending (credit processing and lending need), Security administration, and item the executives have been observed to be connected emphatically and essentially with financial performance of MFIs of the concentrated on firms (p esteem <0.05). The independent factors (Product the board, Security administration, Lending (advance processing and lending need)) explain 66.9% changeability on the reliant variable (Financial performance rating) since R square worth is .669.

Also, Mariu, (2011) tracked down that the intermediaries for profitability were both ROA and ROE. Credit hazard estimated by the amount of the degree of advances past due 30 days or more ($PAR > 30$) and as yet accruing interest is contrarily and altogether identified with MFI profitability. This concentrate consequently finds proof to help the guess that increased openness to credit hazard is regularly connected with lower MFI profitability. The other review which is embraced by Lafourcade et al, (2005) Overview of the Outreach and Financial Performance of Microfinance Institutions showed that MFIs all throughout the planet continue to exhibit low $PAR > 30$ days, with a worldwide normal of 5.2 percent however African MFIs maintain moderately high portfolio quality, with a normal $PAR > 30$ days of 4.0 percent, performing better compared to their partners in South Asia (5.1 percent), LAC (5.6 percent), and East Asia (5.9 percent). At the point when MFIs are confronted with helpless portfolio quality, they might discount the credits from their books or refinance the advances by extending the term, changing the installment plan, or both. The outcome shows that advance in danger is contrarily corresponded with MFIs financial performance.

According to retail banking research which is finished by Dietrich and Wanzried, (2009) presume that the capital proportion, which is defined as value over absolute resources, has a positive and critical impact on bank profitability in Switzerland as estimated by the profit from normal resources ROAA. Functional Efficiency is performance measure that shows how well MFIs is streamlining its tasks and considers the expense of the input and additionally the cost of

yield. Proficiency in cost the executives ought to guarantee a more powerful utilization of MFIs credit capable assets, which might improve MFIs profitability. Higher proportions of operating costs to net advance portfolio show a less proficient administration. Functional effectiveness in managing the operating costs is one more measurement for the executives quality. The performance of the board is often communicated subjectively through abstract assessment of the executives frameworks, hierarchical discipline, control frameworks, nature of staff, and others.

According to the concentrate by Nimal Sanderatne, (2003) a review on determinants of financial feasibility, defined that the functional effectiveness and low administration costs have a significant bearing. Plus, a review on financial performances, the review pronounced that, numerous MFIs are not considered sustainable. By stating the reality, the analyst affirmed that the functional proficiency is inevitable to draw in reserves. Dissanayake (2012), Operating productivity is intermediaries by operating cost proportion which is changed operating cost isolated by changed normal gross advance portfolio and reasons that Operating Expense Ratio, are measurably critical indicator factors in determining Return on Assets Ratio. Also, Mengstu (2020) concentrated on that the profit from resource of Ethiopian micro finance institutions are mainly influenced by internal components than the outer variables. All the more explicitly, capital resource, size, and earning capacity are critical internal drivers of profitability in Ethiopia. Indeed focusing and reengineering the institutions along the edge of this indicator could improve the profitability just as the performance of the micro finance institutions in Ethiopia. The outcomes additionally indicate that MFIs ROA is decidedly and fundamentally influenced by MFI size; so they need to increase their sizes by selling more offers in order to profit from the degree and size of economies. Notwithstanding that gearing proportion have insignificant impact on the profit performance of Ethiopian micro finance. Nonetheless, from outer factors all macroeconomic elements with the exception of market fixation have insignificant impact on the profit performance of Ethiopian micro finance institutions.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1. CONCLUSION

This study has found that the loan processing for the majority of cases was more than 30 days. Since 63% of the respondent have expressed their views that MFIs take more than 30 days to process the loan application to first disbursement of approved loan. Processing the loan includes reviewing the loan application, making sure the borrower has provided all the necessary paperwork, and that all the information is accurate.

Regarding the rating of loan processing as fair which make up of (55.2%) of the respondent. Based on this the loan processing of MFIs were on a medium level. Loan processing rating is important for loan clients since it brings about planning suitable items and administrations and in the productivity and viability of the cycles making them. Further developing help the MFIs accomplishing such destinations and deal with the dangers got from their activities. A few cycles like loaning measure, saving administration interaction and installments the executives' cycle portray the MFIs' activities.

Based on the correlational results of this study has showed that the presence of positive and significant correlation between the independent variables and the dependent variable (financial performance). More specifically, Lending (loan processing and lending priority), Security administration, and product management have been found to be correlated positively and significantly with financial performance of MFIs of the studied firms (p value <0.05).

The regression result also showed that the predictor variables presented above (Product management , Security administration, Lending (loan processing and lending priority)), their correlation coefficient with the dependent variable (Financial performance rating) is .818 which indicates the presence of high positive correlation between the dependent and the independent variables as a whole. The independent variables (Product management, Security administration, Lending (loan processing and lending priority)) explain 66.9% variability on the dependent variable (Financial performance rating) since R square value is .669

5.2 RECOMMENDATION

Based on the results of this study, the researcher would like to recommend the following points.

- The accesses to financial and non-financial services have been the key factor to the growth of small business owners in Ethiopia. Regarding to these MFIs should provide available and reasonable loan/credits as well as provide the participator loan criteria for micro and small enterprise in the country.
- The government should undertake the immediately problem of infrastructure growth and maintenance, found significant well accepted and appropriately organized institutions to make support for micro and small enterprises in such esteem as; procurement, deliver and distribution of inputs, donate of domestic/imported machines for utilize on concessional terms, training in many mechanical positions and generate constructive market situations.
- The study would like to recommend the managers of Ethiopian micro finance institutions to structure policies aimed at enhancing the profitability of the MFI through improving the capital structure (strengthening the MFI's capital base), increasing size of MFIs by selling more shares, diversifying sources of income and utilizing assets more productively.
- In order to ensure their long run funding requirement and sustain their key role in the provision of credit facilities to the poor society, MFIs have to emulate profit-making investment practices by implementing a sound financial management and good management on the internal factors that affect their performance

Reference list

- Almansour, A., Alrawashdeh, N., & Almansour, B. (2019). The impact of capital structure on the performance of microfinance institutions. *Management Science Letters*, 10(4), 881-888.
- Bakar, M., Rahman, A., & Ibrahim, Z. (2019). Client protection and sustainable performance in microfinance institution. *International Journal of Productivity and Performance Management*, 69(4), 659-665.
- Bosco, N. J. (2019). Loan Management and Performance of microfinance Institutions In Rwanda: A case musanze mistrict. *Center for Promoting Education and Research (CPER) USA*, 5(1), 122-136.
- Creswell, J. W. (2003). A framework for design. In C. D. Laughton & V. Novak (Eds.), *Research design: Qualitative, Quantitative and Mixed Methods Approaches* (pp. 9-11). Lincoln, Nebraska: Sage Publications.
- Dietrich, A., & Wanzenried, G. (2009, April). What determines the profitability of commercial banks? New evidence from Switzerland. In *12th conference of the Swiss society for financial market researches, Geneva*, 2-39.
- Dissanayake, D. (2014). The Determinants of Microfinance Profitability: Evidences from Sri Lankan Microfinance Institutions. *Kelaniya Journal of Management, University of Kelaniya*, 1(1), 50-67.
- Duncan, N. M., Njeru, A., & Tirimba, O. (2015). Effect of loan repayment on financial performance of deposit taking Saccos in Mount Kenya Region. *International Journal of Innovation and Applied Studies*, 10(4), 1238-1244.
- Elia, M. (Ed.). (2006). *Microfinance: Text and Cases: Basics on Microfinance: Case Studies from the Arab Region*. SAA, School of Management, University of Turin.
- Ferro-Luzzi, G., & Weber, S. (2006). Measuring the performance of microfinance institutions. From <http://ssrn.com/abstract>.
- Geda, A. (2008). Domestic Resource Mobilization and Financial Development. In *Domestic Resource Mobilization and Financial Development (Issue July)*. <https://doi.org/10.1057/9780230594012>.

- Gudeta, S. (2013). *Determinants of profitability: An empirical study on Ethiopian Microfinance Institutions (Unpublished MSc project)*. Addis Ababa University, Addis Ababa, Ethiopia.
- Helms, B.(2006) *access for all, building inclusive financial system*. The International Bank for Reconstruction and Development. The World Bank, Washington, DC 20433, 1-171.
- Iezza, P. (2010). Financial sustainability of microfinance institutions (MFIs): an empirical analysis. MSc thesis, Copenhagen Business School institutions: A systematic review. *Journal of economic surveys*, 32(5), 1483-1513.
- Katula, R., & Kiriinya, S. (2018). Loan Appraisal and Financial Performance of Deposit Taking Savings and Credit Cooperative Societies in EMBU County, KENYA. *International Journal of Research in Finance and Marketing (IJRFM)*, 8(5), 1-8.
- Kipkoech, J., & Muturi, W. (2014). Determinants of financial performance of microfinance institutions in Kenya: a case of microfinance institutions in Nakuru town. *International Journal of Accounting and Financial Management Research*, 4(6), 1-16.
- Lafourcade, A. L., Isern, J., Mwangi, P., & Brown, M. (2005). Overview of the outreach and financial performance of microfinance institutions in Africa. *Microfinance Information Xchange, Washington, DC*.http://www.mixmarket.org/medialibrary/mixmarket/Africa_Data_Study.pdf.
- Mawa, B. (2008). Impact of micro-finance towards achieving poverty alleviation. *Pakistan Journal of Social Sciences*, 5(9), 876-882.
- Mulaik, s. a., James, L. R., van Alstine, J., Bennett, N., Lind, S., & Stilwell, C. D. (1989b). Evaluation of goodness-of-fit indices for structural equation models. *Psychological Bulletin*, 105(3), 430 – 445.
- Melkamu, T. (2012). *Determinants of Operational and Financial Self-Sufficiency: An Empirical Evidence of Ethiopian Microfinance Institutions (un published MSc thesis)*. Addis Ababa University, Addis Ababa Ethiopia.
- Muriu, P. (2011) *Microfinance Profitability: What explains the low profitability of African microfinance's?*, (PhD thesis), Birmingham Business School, University of Birmingham.

- Nasrin, S., Rasiah, R., Baskaran, A., & Masud, M. M. (2018). What determines the financial performance of microfinance institutions in Bangladesh. *A panel data analysis, Quality & Quantity*, 52(3), 1409-1422.
- Negash, A., Mengstu, T., & Hadush, K. (2020). Determinants of Financial Performance of Microfinance Institution in Ethiopia. *Journal of Business and economics*, 3(1), 65-77.
- Nelson, S. (2011). *Performance assessment of microfinance institutions in the Ashaiman Municipality* (Doctoral dissertation).
- Njuguna, J., Gakure, R., Waititu., & Katuse, P. (2017). Strategic Risk Management Strategies and the Growth of Microfinance Sector in Kenya. *Journal of Business and Strategic Management*, 2(2), 17 – 41.
- Ofeh, M., & Jeanne, Z. (2017). Financial performances of microfinance institutions in cameroon: Case of CamCCUL Ltd. *International Journal of Economics and Finance*, 9(4), 207-224.
- Ongore, V. O., & Kusa, G. B. (2013). Determinants of financial performance of commercial banks in Kenya. *International journal of economics and financial issues*, 3(1), 237-252.
- Robinson, M. S.(2001).The microfinance revolution ,sustainable finance for the poor, *The World Bank, Washington, D.C. Open Society Institute, New York*.
- Simon, P. 2020. Influence of Financing Decisions on Financial Performance of Savings and Credit Cooperative Societies in Kenya. *Journal of Economics and Finance (IOSR-JEF)*, 11(2), 13-21.
- Taiwo, J., Ucheaga, E., Achugamonu, B., Adetiloye, K., Okoye, O., & Agwu, P. (2017). Credit risk management: Implications on bank performance and lending growth. *Saudi Journal of Business and Management Studies*, 2, 584-590.
- Tesfaye, M. (2018). *The Effect of Credit Risk on Financial Performance of Commercial Banks in Ethiopia* (Unpublished Master's Thesis). Addis Ababa University, Addis Ababa, Ethiopia.
- Yenesew, A. (2014). *Determinants of financial performance: a study on selected micro finance institutions in Ethiopia* (Doctoral dissertation, Jimma University).
- Yonas, N. (2012). Determinants of Financial Sustainability of Ethiopian Microfinance Institutions. *Addis Ababa University, Ethiopia*.

Zergaw, F. (2015). *Determinants of micro finance profitability: the case of selected micro finance institutions* (Doctoral dissertation, Jimma University).

Appendix I

Questionnaire for employees

Addis Ababa University
Collage of business and economics
Department of accounting and finance
Questionnaires

Dear respondents,

I am a graduate student at the department of accounting and finance of the Addis Ababa University College, of Business and Economics. I am undertaking a study on the determinants of financial performance of microfinance institutions in Ethiopia, in partial fulfillment of the requirements for the degree of Master of Science in Accounting and Finance. This questionnaire is meant to collect information in support of the above mentioned study. You are kindly requested to participate in this study by responding to the information requested here as accurately and honestly as possible. You are selected to participate in this study considering your proficiency and experience. Once again, the researcher greatly appreciates your willingness to participate in study. It will only take maximum of 30 minutes. The information you provide us will be used for academic purpose only and it will be strictly kept confidential. Besides, your name will not be identified in any reports and presentations of the findings of the study. If you have any questions related to the study and questionnaire, please contact me with email :- emusha2021@gmail.com Tel:- 0919142377 or 0921753296.

Thank you very much for your willingness to participate in this study.

Eyerusalem Wondimu

Instruction:

For questions with alternatives please provide your choice by putting a check mark (✓) in the appropriate box, for open ended questions, please provide brief answer,

Part A general information

Put an "X" mark on the boxes which indicate your profile group.

1. Gender

Male Female

2. Age Group

20 – 30 years 31 - 40 Years 41- 50 Years **Above 50 years**

3. Level of Education

Certificate and below Diploma

First Degree Second Degree and above

4. Job

Managerial

Senior

Junior

5. Experience

Less than 1 year

1 – 4 years

4 – 6 years

6 and above years

Part B lending management

9) On the average, how many days does your MFI take to process loan from date of application to first disbursement of approved loan?

❖ Less than 15 days

❖ 16 up to 30 days

❖ More than 30 days

10) How would you describe loan process?

9) Excellent

10) Very good

11) Average

12) Fair

13) Poor

11) Please complete the following table by putting checkmark in the column corresponding to the sector to which you are providing loan and rank them according to the priority you give to each sector by putting numbers (1, 2, etc.) in the corresponding column.

Sector	Loan provided to (✓)	Priority ranking (1, 2, etc.)
a) Agriculture, forestry and fishing		

b) Textile Industry		
c) Manufacturing		
d) Energy		
e) Mineral and mining		
f) Telecommunications		
g) hotel and Tourism		
h) construction and real estate		
Others please specify them		
i)		
j)		
k)		
l)		

Part C) Security administration

12) Are the loans provided to borrowers in your institution secured?

a) Yes

b) No

13) If your answer is “yes” for question number 10 above, which type of securities are you currently accepting?

- group guarantee
- salaries of permanent employees
- customers of the institution
- land lease
- saving in various saving institution
- money paid for “equb”

- personal and machineries joint guarantee
- television, jewelries and other movables
- others, please specify

14) On the average, in how many months do you require borrowers to repay their loans?

- a) Less than 1 months
- b) 2 up to 3 months
- c) 4 up to 6 months
- d) 7 up to 9 months
- e) 10 up to 12 months
- f) More than 12 months

The end!!!

Thank you very much again for your indispensable cooperation in answering all our questions.

Appendix II

Financial statement of MFIS

Name of Institution -Ben. Gum.											
Profit and Loss account in 000's											
For the year Ended June 30,	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Category											
Revenues											
Interest Income from saving					538.90	334.60	555.50	1,243.10	1,849.00	35,707.90	48,943.20
Interest Income from Loan and advances		15,810.80	9,475.40	10,013.90	9,399.60	12,753.70	13,955.60	15,301.90	21,507.90		
Commissions										8,759.40	
Service fees (charge)		2,835.40	1,366.60	3,749.90	3,280.90	3,179.10	4,103.90	4,685.90	7,838.30		13,907.80
Loan loss reserve recovered		3,275.10	2,207.20	3,097.10	6,664.70	5,697.80	4,418.10	16,075.20	4,665.70		
Provision for doubtful loans and advances											
Income from Investment											
Other financial revenues		1,030.60	1,687.80	3,209.90	1,513.10	1,842.10	2,830.20	2,343.60	1,879.50	3,200.40	3,723.10
Total Revenues	-	22,951.90	14,737.00	20,070.80	21,397.20	23,807.30	25,863.30	39,649.70	37,740.40	47,667.70	66,574.10
Expenses											
Interest & fee expenses on Saving		2,876.00	894.20	1,441.50	1,215.70	2,367.80	2,580.20	4,818.30	5,967.60	21,247.40	10,291.40
Salaries and related benefits			3,973.10	4,556.50	5,042.30	7,283.90	8,278.30	9,485.60	13,399.80	13,695.50	15,449.50
Other General & Administrative expenses		7,688.30	8,555.00	8,216.10	11,808.30	11,162.70	13,586.10	16,952.90	4,517.60		24,073.00
Audit fee and Expenses		132.80			3.00	49.50	44.90	44.90	153.00	76.30	73.60
Depreciation (Obsolate stock)			708.80		770.30	762.40	678.60	541.90	556.30	349.20	369.30
Other Expenses		14,670.50		629.00							
Total Expenses	-	25,367.60	14,131.10	14,843.10	18,839.60	21,626.30	25,168.10	31,843.60	24,594.30	35,368.40	50,256.80
Net Income before Tax	-	(2,415.70)	605.90	5,227.70	2,557.60	2,181.00	695.20	7,806.10	13,146.10	12,299.30	16,317.30
Tax											
Net Income after Tax	-	(2,415.70)	605.90	5,227.70	2,557.60	2,181.00	695.20	7,806.10	13,146.10	12,299.30	16,317.30
Cash grant											
Net Income after Tax & grants	-	(2,415.70)	605.90	5,227.70	2,557.60	2,181.00	695.20	7,806.10	13,146.10	12,299.30	16,317.30
Balance Sheet	<i>In 000's</i>										
For the year Ended June 30,	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
ASSETS											
Cash on hand		25,994.90	43,486.20	26,688.50	28,685.90	26,595.70	58,371.40	90,489.20	69,448.50	106,015.50	101,333.80
Cash balances at banks /MFIs											
Cash balance at Reserve bank											
Receivable short term investment		17,335.30	14,919.60	17,175.40	16,431.20	16,365.90	13,337.00	12,244.20	11,885.40	13,145.00	
Gross Outstanding Loans		43,905.10	52,911.30	62,663.70	92,981.80	98,899.20	94,544.70	139,336.70	258,752.00	288,863.60	401,023.40
Less Provision for loan loss											
Net Outstanding loan	-	43,905.10	52,911.30	62,663.70	92,981.80	98,899.20	94,544.70	139,336.70	258,752.00	288,863.60	401,023.40
Prepayment											
Debtors stock		3,922.80	4,826.20	1,457.50	1,374.60	1,448.40		8,419.50	166.10	346.20	346.20
long term investment											900.00
Net fixed assets		1,717.90	1,699.20	1,551.70	1,687.10	1,462.90	1,890.30	2,749.30	2,596.90	2,967.50	3,843.80
other assets		2,111.60	17,782.90	1,145.60							
Total Assets	-	94,987.60	139,665.50	114,957.30	145,761.00	159,270.50	177,006.30	266,089.90	359,147.10	433,905.80	528,643.10
Liabilities and Capital											
Client's saving (customer deposit)		27,731.20	34,046.40	43,773.90	55,249.40	64,027.90	78,873.50	93,698.00	127,864.60	149,542.70	184,775.40
Demand deposits											
Time deposit											
Fixed deposits											
other deposit											
Creditors					35,870.50	41,515.30	46,163.70	87,236.60	134,596.10	177,300.70	244,857.90
Payables		22,727.90	50,686.50	19,871.40							
Deferred grants											
short term liabilities											
Long term liabilities		10,470.50	20,386.30	9,627.30	9,090.40	6,850.80	4,879.20	794.00	1,588.00		
Other liabilities								2,382.00			
Provision for taxation											
Total Liabilities	-	60,929.60	105,119.20	73,272.60	100,210.30	112,394.00	129,916.40	184,110.60	264,048.70	326,843.40	429,633.30
Paid up capital		300.00	300.00	300.00	300.00	300.00	1,300.00	1,300.00	1,300.00	1,300.00	1,300.00
Donated Equity		39,083.20	39,083.20	41,396.50	42,690.70	41,902.60	41,901.10	68,957.30	68,916.90	68,916.90	44,546.80
Retained earnings		(5,325.10)	(4,836.90)	(11.90)	2,559.90	4,674.00	3,888.90	11,721.90	24,881.40	36,845.50	53,163.10
Legal reserve											
General reserve											
Other capital Account											
Total capital	-	34,058.10	34,546.30	41,684.60	45,550.60	46,876.60	47,090.00	81,979.20	95,098.30	107,062.40	99,009.90
Total Liabilities & Capital	-	94,987.70	139,665.50	114,957.20	145,760.90	159,270.60	177,006.40	266,089.80	359,147.00	433,905.80	528,643.20
	-	(0.10)	-	0.10	0.10	(0.10)	(0.10)	0.10	0.10	-	(0.10)
	-	0.10	-	(0.10)	(0.10)	0.10					

Name of Institution -ACSI													
Profit and Loss account in 000's													
For the year Ended June 30	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
Category													
Revenues													
Interest Income from saving													3,998,402.50
Interest Income from Loan and advances	295,983.60	413,977.80	578,328.10	770,577.00	1,021,983.20	1,593,631.60	2,015,911.40	2,639,158.20	3,757,111.10	112,131.00	118,767.50		
Commissions													
Service fees (charge)	4,378.30	9,807.30	8,062.50	40,840.70	52,059.70	58,095.30	79,488.80	163,747.50					
Loan loss reserve recovered	14,972.40	32,742.80	8,042.00	4,536.20	1,256.50	755.90							
Provision for doubtful loans and advances	(10,565.60)	(9,654.70)	(3,498.50)	(15,497.70)	(8,340.50)								
Income from Investment	13,086.80	27,404.00	26,894.10	36,541.00	92,986.20			3,385.70	16,855.00				
Other financial revenues	44,550.90	22,189.10	34,443.10	23,255.00	42,966.50	62,570.00	2,605.50	65,270.60	162,747.30	212,702.30			
Total Revenues	362,406.40	496,466.30	652,271.30	860,252.20	1,202,911.60	1,715,052.80	2,101,391.40	2,885,031.30	4,031,989.40	4,329,872.30			
Expenses													
Interest & fee expenses on Saving	57,335.10	77,619.30	129,251.60	183,006.50	279,289.70	397,103.30	477,817.00	763,084.00	1,078,129.00	1,266,479.90			
Salaries and related benefits	93,375.50	116,157.90	157,881.50	149,005.80	220,919.80	391,232.50	112,941.30	28,132.90	789,986.40	1,143,288.30	1,193,559.90		
Other General & Administrative expenses													
Audit fee and Expenses				220.10	350.00								
Depreciation (Obsolate stock)				16,951.80	25,434.40	25,710.20				11,517.50	27,502.70		
Other Expenses				44,548.00	55,249.80			614,276.50	93,319.30	377,362.50	541,177.50		
Total Expenses	150,710.60	193,777.20	287,133.10	393,732.20	581,243.70	927,337.80	1,120,226.40	1,646,389.70	2,788,057.80	3,155,576.70			
Net Income before Tax	211,695.80	302,689.10	365,138.20	466,520.00	621,667.90	787,715.50	981,165.00	1,238,641.60	1,243,931.60	1,174,295.60			
Tax													
Net Income after Tax	211,695.80	302,689.10	365,138.20	466,520.00	621,667.90	787,715.50	981,165.00	1,238,641.60	1,243,931.60	1,174,295.60			
Cash grant	3,136.00	8,600.40	3,006.10										
Net Income after Tax & grants	214,831.80	311,289.50	368,144.30	466,520.00	621,667.90	787,715.50	1,061,944.80	1,238,641.60	1,243,931.60	1,174,295.60			
Balance Sheet													
In 000's													
For the year Ended June 30	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
ASSETS													
Cash on hand	915,479.70	862,039.10	881,875.50	2,273,780.30	2,614,884.10	3,829,080.70	5,240,357.40	6,222,597.80	5,149,610.50	7,955,192.10			
Cash balances at banks /MFIs	2,235.30		127.00										
Cash balance at Reserve bank													
Receivable	92,962.90	160,799.40	211,391.50				459,637.90	490,398.30	1,301,915.80		25,000.00		
short term investment													
Gross Outstanding Loans	1,905,990.80	2,983,985.10	4,293,695.00	5,272,922.60	7,801,362.50	9,831,800.60	12,091,031.50	17,689,287.60	24,671,443.70	22,219,065.10			
Less Provision for loan loss													
Net Outstanding loan	1,905,990.80	2,983,985.10	4,293,695.00	5,272,922.60	7,801,362.50	9,831,800.60	12,091,031.50	17,689,287.60	24,671,443.70	22,219,065.10			
Prepayment							322,688.40						
Debtors	214,641.20	90,307.70	70,084.60	191,680.30	213,539.60								
stock	10,517.10	14,413.30	26,789.70	28,838.10	31,624.50	60,009.20	44,214.90	51,927.40					
long term investment	200.00	200.00	10,200.00	10,200.00	214,750.00	242,452.90	296,452.90	348,071.90					
Net fixed assets	112,165.20	245,743.60	356,078.00	258,246.50	276,602.60	290,030.70	593,038.00				1,267,017.00		
other assets	25,000.00	25,000.00	25,000.00	424,548.60	562,246.10	228,769.90	554,221.10	1,448,293.70	2,778,176.70	2,071,244.30			
Total Assets	3,279,192.20	4,382,488.20	5,875,241.30	8,460,216.40	11,715,009.40	15,264,470.30	19,309,714.20	27,062,094.20	32,599,230.90	33,537,518.50			
Liabilities and Capital													
Client's saving (customer deposit)	1,365,330.80	1,796,690.30	2,449,654.70	4,413,063.60	6,413,770.30	8,782,910.30	11,475,724.20	15,566,325.20	18,841,489.90	18,207,770.70			
Demand deposits													
Time deposit													
Fixed deposits													
other deposit	10,000.00	10,000.00	10,000.00										
Creditors	136,110.90	121,655.60	132,008.50	225,380.30	397,405.80	612,611.40							
Payables	1,926.30	2,553.60	17,488.10	923,945.70	1,286,241.70	1,317,652.10	1,214,969.80	1,460,620.90					
Deferred grants													
short term liabilities													
Long term liabilities	134,786.80	134,475.80	143,090.80	864,005.60	915,032.50	1,070,876.00							
Other liabilities	715,742.00	1,091,634.80	1,553,695.20				2,093,774.70	4,191,330.60	6,751,089.00	7,213,066.40			
Provision for taxation	719.10	834.90	2,278.50	3,414.30	6,090.30	9,583.50	12,071.60	25,087.90					
Total Liabilities	2,364,615.90	3,157,845.00	4,308,215.80	6,429,809.50	9,018,540.60	11,793,633.90	14,796,540.30	21,243,364.60	25,592,578.90	25,420,837.10			
Paid up capital	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	1,000,000.00	1,000,000.00	1,000,000.00			
Donated Equity	82,212.70	98,179.10	101,185.20	117,700.00	180,495.90	189,029.50	189,473.10	190,663.10	190,663.10	190,663.10			
Retained earnings	830,363.60	1,124,464.10	1,463,840.30	1,910,706.90	2,513,972.90	3,279,807.40	4,321,300.80	4,561,072.90	5,697,208.00	6,749,054.20			
Legal reserve							400.00	66,993.60	118,780.90				
General reserve													176,964.20
Other capital Account													
Total capital	914,576.30	1,224,643.20	1,567,025.50	2,030,406.90	2,696,468.80	3,470,836.90	4,513,173.90	5,818,729.60	7,006,652.00	8,116,681.50			
Total Liabilities & Capital	3,279,192.20	4,382,488.20	5,875,241.30	8,460,216.40	11,715,009.40	15,264,470.30	19,309,714.20	27,062,094.20	32,599,230.90	33,537,518.50			
							0.10	(0.10)					(0.10)