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An Assessment of the Commercialization Performances of Microfinance Institutions in Ethiopia: Achievements, Challenges and Implications: The case of Selected MFIs.

By: Asefa Abba

A Thesis submitted to Addis Ababa University in Partial Fulfillment of the Requirements for the Degree of Master of Arts in Regional and Local Development Studies.

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STATEMENT OF DECLARATION

I, the undersigned, declare that this study entitled "An Assessment of Commercialization Performances of Microfinance Institutions in Ethiopia: Achievements, Challenges and implications: A case of selected microfinance institutions", is my own work. I have carried out the research work with the guidance and support of my research advisor.

This study has not been submitted to any degree/diploma in this or any other institution. It is done in the partial requirement of the MA Degree in Regional and Local Development Studies.

Declared by: Asefa Abba

Signature: _____

Date: 05/07/14

Advisor: Issac Paul (Dr)

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Date: 5/07/2014

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This is to certify that the thesis prepared by Asefa Abba, entitled: An Assessment of Commercialization Performance of Microfinance Institutions in Ethiopia: Achievements, Challenges and implications: A case of selected microfinance institutions and submitted in partial fulfillment of the requirements for the Degree of Master of Arts in Regional and Local Development Studies and complied with the regulations of the University and meets the accepted standards with respect to originality and quality.

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ABSTRACT

An Assessment of the Commercialization Performances of Microfinance Institutions in Ethiopia: Achievements, Challenges and Implications

Asefa Abba

Addis Ababa University, 2014

Microfinance is one of the most powerful tools for combating poverty primarily by providing financial services to the excluded segments of the society so as to run their businesses, build assets, smooth consumption, and manage risks. As, microfinance industry as a whole is challenged by the need to reach the excluded segments/poor and at the same time being financially self-sufficient/sustainable, this study has designed to assess commercialization performances of MFIs in Ethiopia along with related challenges and implications, at least to indicate the current position of Ethiopian microfinance industry for researchers, practitioners and policy makers.

The study used both secondary and primary data collected from selected MFIs and key stakeholders such as NBE and AEMFI. With regards to data analysis, the study categorizes the sample MFIs based on affiliations and scale, and made descriptive and trend analysis, and in-depth comparative analysis through One Way ANOVA and Kruskal-Wallis test, and Applied Pearson Correlation Coefficients on key performance indicators.

As per the study findings, Ethiopian Microfinance Institutions have shown continuous improvements in the commercialization performances through time though there are limitations. Here, government-backed and large MFIs peer groups have proved to be efficient, profitability and sustainability. As a result of better efficiency and scale of operations, these groups also charge low interest rates and better breadth of outreach. With respect to the depth of outreach, however the means differences were not significant, NGO-backed and small MFIs seem to reach the poorest section of the society. Nonetheless, the study has also proved that the level of mission drift as a result of commercialization of microfinance operations and administration is not significant.

Key Words: Microfinance, Commercialization, sustainability and outreach

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Acronyms

ACSI: Amhara Credit and Saving Institution

ADB: Asian Development Bank

AdCSI: Addis Credit and Saving Institution

AEMFI: Association of Ethiopian Microfinance Institutions

AVFS: Africa Village Financial Services

AROA: Adjusted Return on Assets

AROE: Adjusted Return Equity

CGAP: Consultative Group to Assist the Poor

DFI: Development Financial Institutions

ELR: Expenses to Loan Ratio

FDRE: Federal Democratic Republic of Ethiopia

FSS: Financial Self-Sufficiency

GDP: Gross Domestic Product

MBB: Micro-Banking Bulletin

MFIs: Microfinance Institutions

MIX: Microfinance Information Exchange

NGOs: Non-Governmental Organizations

OSS: Operational Self Sufficiency

OCSSCO: Oromia Credit and Saving Share Company

WB: World Bank

UN/OSCAL: United Nations Office of the Special Coordinator for Africa and the Least Developed Countries

UNEP FI: United Nations Environment

Chapter One

Introduction

1.1 Background of the Study

Access to financial service is believed to be one of the engines for the economic advancement of the household, firms and country. Today, over 3 billion people in the world live in poverty (CGAP, 2011). According to Jean-Luc (2006), the cause of poverty in developing economies among other things is that the poor do not have access to credit for the purpose of working capital as well as investment at their small business. Besides, the poor require a variety of financial products and services, enabling "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers" (Christen, Rosenberg and Jayadeva, 2004). Thus, people living in poverty, like everyone else, need diverse reliable financial services to run their businesses, build assets, smooth consumption, and manage risks (http://www.cgap.org/p/site/c/about/).

In the past micro-credit programs were fully run by the government and development partners to spur economic growth and agricultural development (Charitonenko and Campion, 2003). This phenomenon started in some developing countries like Bangladesh, India and Indonesia in the early 1970's and has since then been dispersed globally. Thereafter it has been globally recognized as a leading development tool to combat poverty by enhancing credit access to the poor household and enterprises which

do not have access due to irregular income sources, vulnerability to risks, and lack of collateral or other subjective reasons. These micro-credit programs in the past were usually dependent on subsidized funds, and services were given at rates and prices below contemporaneous market prices. Such subsidized credit also leads to excess demand. Here, the critical question is whether these micro-credit programs are able to serve such excess demand in a sustainable manner to bring sustainable positive impacts on the lives of the poor when subsidies are no longer available. To this end, access to reliable credit is more important to smallholder farmers and other micro-entrepreneurs than the interest rate for production and investment decisions (ibid).

According to Joanna Ledgerwood (1999), the key characteristics of a strong Microfinance institution are the availability of "appropriate financial products and services at affordable prices", and "financial sustainability", "administration and finance", "management information system" and "relevant management". However, providing financial services on a cost-covering basis and translating high repayment rates into profits also remains a challenge not mastered yet. Here, the inherent costs of market contracts in micro-lending focus on outreach and dependence on non-commercial sources of funds, such as subsidies undermines the need for financial self-sufficiency in microfinance practices (Armendáriz de Aghion and Morduch, 2010). Recently, however, increasing regulations, commercialization and competition in microfinance sector leads to market oriented approach and self-sustainability– a demanding goal that requires the ability to cover costs out of the income generated. The pressure on commercialization of microfinance has increased globally and while the majority of MFIs in the developing world have the objective to become financially sustainable

(Christen & Drake, 2001). According to Gibbons and Meehan (2000), MFIs in Africa and Asia are the frontiers in regard of financial sustainability and that the key characteristic for those institutions is cost-efficiency. This is also supported by the well-known Forbes Magazine's list of the most effective MFIs in the world, where 18 out of the top 20 organizations origin from Asia and Africa (Forbes Magazine, 2011).

The revolution of microfinance from micro-credit program also dictates the sector progression from the informal sector to formal, unregulated institutions to increasingly regulated organizations that are now integrated in the formal finance sector. This revolution in microfinance over the last two decades was led by practitioners who developed methodologies that achieve very high rates of repayment and cost recovery and also reach predominantly poor clients, especially women (Robinson, 2001). In addition, a significant proportion of the rural community has proved to be willing and able to save, as deposit mobilization is increasingly used as a tool for expanding outreach and achieving self-sufficiency (Charitonenko and Campion, 2003). Greater self-sustainability means that donor subsidies can be leveraged to reach greater number of poor clients. In the past, the failure to charge interest rates that sufficient to cover costs and enforce repayment meant that subsidies were largely absorbed in covering operating costs and loan losses, while only a select few benefited from the limited number of subsidized loans that could be delivered. Thus, building business-like approaches in the microfinance operations and administration are expected to increase both scale and outreach to the urban and/or rural poor through a range of reliable financial services (including savings, money transfers, and insurance, as well as credit) with decreasing dependence on external donor funding (ibid). Conversely, there is a

debate that mostly rotated around generating profit with the intention of fostering sustainability from the sector in which the poor is targeted and drifting away from the original mission of poverty alleviation.

As denoted by Charitonenko and Rhaman (2002), microfinance commercialization refers: adoption of business-like approaches in microfinance operations and administrations such as developing diversified demand-driven products and service, and applying costs & probable risks recovery interest rate; progression towards operational and financial self-sufficiency by increasing cost recovery and efficiency as well as expanding outreach; and use of market based fund sources. Otero (1997) also defines it as "the application of commercial principles to the deployment of financial services to the poor" (Hattel & Halpern, 2002). To this end, commercialization of microfinance refers to the movement to be out of the heavily donor-dependent sector of subsidized operations into one in which the service providers are sustainable and are a part of the regular (or formal) financial system (Ledgerwood, White and Joanna, 2006). Commercialization is also characterized by profitability, competition, and regulation (Christen, 2001). According to him, commercialization also enhances access to commercial sources of funds, both debt and equity (ibid). Besides, it is being increasingly forcefully argued that commercialization allows greater opportunity for MFIs to fulfill their social objectives through enhancing access to a wide range of demand-driven microfinance products and services to the poor (Charitonenko and Campion, 2003). Accordingly, commercial orientation benefits both MFIs and micro-entrepreneurs by providing longer maturities and more diversified funding sources (Bystrom, 2007; Emeni, 2008; CGAP, 2007). With this dispersion of microfinance

commercialization, most discussion now rotates around outreach and self-sustainability. Therefore, for the purpose of this study commercialization refers to the adoption of business-like approaches in microfinance operations and administrations such as developing diversified demand-driven products, applying competitive and fair pricing strategy that compensate all the costs and probable risks, increasing efficiency and strengthening risk management, progressions towards self-sustainability, and targeting market-based fund sources while pursuing the social objective of poverty alleviation

According to León (2001) sustainability means ensuring the longevity of the organization. Within microfinance, sustainability can be viewed at institutional (group and individual), organizational, managerial and financial aspects. However, financial sustainability of MFIs has become the critical point of focus in their sustainability analysis. According to CGAP (2009), financial sustainability can be tested through operational self-sufficiency, financial self-sufficiency; and adjusted return on assets. Financial sustainability indicates the institution's ability to operate without ongoing subsidy, including soft loans and grants (Micro Banking Bulletin, 2005; CGAP, 2009). The above definitions of financial sustainability imply that a loss making MFI (MFI with poor financial performance) shall not be classified as self-sustainable. Again a profit making MFI, whose operating costs are covered by subsidized resources or funds, shall also not be considered as self-sustainable. Here, sustainability and commercialization are two sides to the same story–the realization that if the field of microfinance is to expand its scale beyond the supply of capital from non-profit sources, it must begin to tap the capital markets. Thus, throughout this study,

operational and financial self-sufficiencies are considered as proxies for MFI's self-sustainability that refers ensuring the longevity of the institution a long with its services to the needy groups through commercialization as if ongoing external supports (subsides, donations....) are used-up.

Outreach implies the size and types of the clients served by the microfinance institutions. Size and type refer the number and nature (mostly economic conditions) of the clients, respectively. These are also non-financial indicators of performance. Breadth of outreach indicates the number of clients served with different type of instruments such as saving and credit. Here, due to data constraint the study used only credit client to measure breadth of outreach though some MFIs have non-credit client/clients with only saving account/. Depth of outreach measures the type of clients served and their poverty level. The proxies for depth of outreach are average outstanding loan balance per GNI per capita and the percentage of women borrowers.

1.2 Statement of the Problem

Currently, above 1.3 billion people in developing countries live on less than US$1.25 per day (https//:www.thp.org), and poverty is one of the major problems that are still prevailing in today's world. Surprisingly, more than 2.5 billion adults, about half of the world's adult population do not have access to basic financial services worldwide (https//:www.worldbank.org/financialdevelopment). Here, access to microfinance services are considered as one of the most important tools to bridge the gap for the poor; even if it is not a magic solution that cures all poverty. According to Reed (2011),

microfinance industry serves over 190 million clients globally; a major advancement from the time when the initial microfinance programs in the third world served a small amount of the poor. Thus, only very small (insignificant) portion of people in developing countries have been given access to formal financial services through this microfinance programs. As a result, millions of potential clients/households and enterprises/ are still remain un-served and the demand for financial services far exceeds the currently available supply.

In the past micro-credit programs were mostly run by government units and development partners in most developing world and fully dependent on subsides and donations. Here, the services were also extended for free or at the rates and prices below contemporaneous market prices. To this end, the critical question is whether these micro-credit programs are able to serve such excess demand in a sustainable manner to bring sustainable positive impacts on the lives of the poor when subsidies and donations are no longer available. Besides, according to Charitonenko and Campion, 2003, access to reliable credit is more important to smallholder farmers and other micro-entrepreneurs to make their production and investment decisions than the interest rate paid for the loan fund.

Similarly, in Ethiopia, initially, most of micro-credit programs were run by the government units and development partners (Amha, 2000). Whereas, by now, the country's Microfinance Business law prohibits international NGOs from direct interventions and opens the market for Ethiopian investors, government and local NGOs such as associations and others. As per the microfinance law and directives of Ethiopia, MFIs are licensed as business entity and allowed to mobilize resources from

the market starting from the date of establishment, and authorized to provide full-packages of financial services to their target groups with the exception of dealing with international banking matters. Currently, there are thirty one MFIs officially registered (NBE, 2013) and severing as financial system intermediaries for excluded segments of the society. Yet these microfinance institutions have made remarkable progress over the past one and half decades, financial services for poor households and enterprises are still characterized by very limited outreach due to different internal and external factors (Ahma, 2012). According to Degefe (2009), "the prospect to meet such huge unmet demand in the country largely depends on the success and sustainability of microfinance institutions" (IFAD, 2001). However, promoting self-sustainable MFIs/industry through the adoption of commercial approaches while fighting against poverty is of an empirical enquiry. At this juncture, commercialization of microfinance with the argument of profit motive to be self-sustainable and addressing social mission of fighting against poverty would be the main debate area. To this end, though some Ethiopian MFIs have proven to have self-sustainable position while pursuing the social objective of fighting against poverty, self-sustainability of some MFIs seem to be doubtful as they are still dependent on irregular donor or government subsidies regardless of the date of their entry to the sector though assumed to have the same operating environment such as legal, regulatory and macroeconomic environments. Here, some MFIs have already left the market and some are also on the pipeline to left the market. Besides, the flow of private capital (potential investors) to the sector is very limited. So that this study intended to assess commercialization performances of selected Ethiopian MFIs along with related challenges and implications, as some

microfinance institutions operating in the country have proven to have self-sustainable position through better adoption of business-like approaches/commercialization while pursuing social objective of poverty alleviation, yet some MFIs not.

With regards to empirical studies, most studies focused on MF impact assessments, but only few studies such as Amha (2007), kereta (2007), and Ejigu (2009) tried to address sustainability and outreach performances of Ethiopian MFI by using only secondary data. Though these studies tried to indicate the position of Ethiopian MFIs in terms of sustainability and outreach at that specific time and provided a good start-up for further review and analysis of MFIs' performances, none of them was adequately addressed commercialization performances of Ethiopian MFIs along with related challenges and implications by using both primary and secondary data, and applied statistical models to compare the performances different MFIs' categories (affiliations and scale based). Besides, due to timing issues and the size of data used in the study periods, their findings might not represent the current position/status of Ethiopian MFIs. Thus, the intention of this paper is to assess commercialization performances of selected Ethiopian MFIs along with related challenges and implications by using both secondary and primary data, and statistical models.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to assess commercialization performances of Ethiopian microfinance institutions.

1.3.2 Specific Objectives:

- To look at the legal frameworks of the country; and strategic documents of representative MFIs in light of microfinance commercialization.
- To review Ethiopian microfinance sector development and structure.
- To review and analyze selected microfinance institutions' commercialization performances and conduct comparisons among different categories (affiliation and scale) of MFIs.
- To assess representative MFIs' products, services and methodologies designed for their target groups and their respective pricing strategy.
- To indicate how financially self-sustainable microfinance institutions differ from non-sustainable ones.
- To examine the implications of microfinance commercialization.
- To explore the core challenges/obstacles to microfinance commercialization in Ethiopia.

1.4 Research Hypothesis

The study has also tested a set of propositions formulated from the research objectives. The identified propositions were:

H_0: There is no significant difference on commercialization performances of different categories (affiliations and scale based) of MFIs.

H_1: There is significant difference on commercialization performances of different categories (affiliations and scale based) of MFIs.

1.5 Scope and Limitations of the study

The study focused on the assessment of commercialization performances of selected Ethiopian MFIs along with related challenges and implications regardless of the social contributions and target group/clients' reflections/reactions. Moreover, the study result may not represent other forms of financial institutions. Getting constructive time series and reliable information was one of the limitations of the study. Furthermore, finance and time constraints have forced the researcher to limit the sample size and the scope of the study.

1.6 Significance of the study

The researcher believes that the findings of the study shall provide an input for the future policy alternatives with regards to microfinance commercialization. The study will also provide empirical tools and inputs for practitioners and academicians in light of deepening microfinance outreach and ensuring self-sustainability through commercialization.

1.7 Organization of the Paper

The study is organized in such a way that: introduction, literature review, research design and sampling, data presentations & analysis, and conclusions and recommendations. As chapter one, introduction part deals with the necessary background information to understand the problem brought up in the study. In addition, the research objectives, and the scope and significance of the study are presented.

Following introduction, literatures (theoretical and empirical) are reviewed as chapter three with the notions of where all the essential definitions and concepts are brought up and explained. This chapter provides the reader with theoretical and empirical insight to microfinance evaluation and concepts, roles, commercialization, implications and related matters. Furthermore, this section dictates about the evaluation and characteristics of Ethiopian Microfinance Institutions.

Chapter three deals about the methodology that describes the approach to answer the questions brought up in the first chapter. Moreover, different variables are used in this chapter to address the research objectives and analyze the findings.

Chapter 4 reflects the empirical study where all the findings are presented and analyzed and put into a context. Chapter 5 refers to conclusions and recommendations of the study and gives the reader an additional dimension of the findings from the study and some hints for future research within the area of microfinance commercialization effects.

Chapter Two

Literature Review

In order to understand commercialization of microfinance, we need to have an overview of the historical perspectives of microfinance revolutions and related topics. Here, literatures related with the subject matters were reviewed to explore the concepts, paradigm and roles of microfinance and microfinance commercialization and related thoughts and empirics. Having reviewed these documents, the study demonstrated commercialization performance of MFIs, basically, achievements, challenges and implications within the context of Ethiopia.

2.1 Theoretical Literature Review

The purpose of this section is to concretely examine the theories that have accumulated with regards to microfinance, and commercialization of microfinance. It helps to establish what theories already exist, the relationships between them, to what degree the existing theories have been investigated, and to develop conceptual framework.

2.1.1 Microfinance: Evolution and Concepts

Microfinance has been variously defined in the literature. No single definition exists, but variations are mostly a matter of emphasis. Ledgerwood (1999) defines microfinance in short as "the provision of financial services to low-income clients, including the self-employed". According to CGAP Occasional paper 15 (Rosenberg .et.

al.2009), "Microfinance usually refers to the provision of financial services to poor and low-income clients who have little or no access to conventional banks. Besides, Robinson (2001) defines microfinance more elaborately as small-scale financial services-primarily credit and savings-provided to people who farm, fish or herd; who operate micro or small enterprises, where goods are produced, recycled or sold; who provide service; who work for wages or commissions who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individual and groups at the local level of developing counties, both rural and urban.". Microfinance" is often defined as financial services for poor and low-income clients offered by different types of service providers (http://www.micrfofinacegateway.org).According to the same source, microfinance refers to a movement that envisions a world in which low-income households have permanent access to a range of high quality and affordable financial services offered by a range of retail providers to finance income-producing activities, build assets, stabilize consumption, and protect against risks. These services include savings, credit, insurance, remittances, and payments, and others.

All the above definitions indicate the target or potential users of microfinance services as low income households and enterprises which have no access to conventional banks, while the first two doesn't specify the services in detail. The latter two definitions more elaborate the beneficiaries and their businesses, types of financial services and their purposes. Besides, the latter definition clearly dictates about the quality, longevity and pricing of the services.

During 1970s government and international donors deliver subsidized micro-credit to smallholder farmers in the rural areas of many developing countries to respond to their financial needs and thereby foster economic development (Hulme, David and Mosley, 1996). Besides, Charitonenko and Campion (2003) noted that in the past micro-credit programs were fully run by the government and donors to spur economic growth and agricultural development. The phenomenon was started in some developing countries of Asia in the early 1970's and has since then been dispersed globally. Thereafter it has been globally recognized as a leading development tool to combat poverty by enhancing credit access to the poor household and enterprises which do not have access due to irregular income sources, vulnerability to risks, and lack of collateral or other subjective reasons. Microfinance has grown from its humble beginnings in the 1980s to a full-fledged industry attracting in its growth an ever larger and wider range of practitioners, investors and supporters. Revolution of microfinance from micro-credit program also dictates the sector progression from the informal sector to formal, unregulated institutions to increasingly regulated organizations that are now integrated in the formal finance sector.

Microfinance is provided by "formal institutions, such as rural banks and cooperatives; semiformal institutions, such as nongovernmental organizations; and informal sources such as money lenders and shopkeepers" (ADB, 2000). Formal financial institutions again differ in their organizational structure and governance, the types of products and services offered their legal form, objective and the associated supervision by authorities. Microfinance institutions are organizations that provide microfinance services to low-income groups as their principal objective. It also takes in to account

special design and methodology for the delivery of financial services to the low-income groups. These Deposit-taking MFIs have the institutional structure and regulatory approval required to mobilize and intermediate deposits. They may be licensed and regulated as banks or operate under a special category for deposit-taking MFIs created by the regulatory authorities.

2.1.2 The Roles of Microfinance in Development

Economists and finance practitioners emphasize that the development of the financial service sector is a major factor for the economic development of a country and the economic well-being of its people as it supports people to smooth their income and increase their investment opportunities. A World Bank research study identified that a well-functioning financial system, channels funds to most productive uses thus boosting economic growth, improving opportunities and income distribution, and reducing poverty (World Bank, 2008). According to Harris and Sam (2002), financial services to poor people – is an effective way to help poor people to enhance income, build assets, manage risk, and work their way out of poverty. It also affects the social and political environment of a country. Accordingly, Robinson (2002) argued that financial services can help the poor to expand their economic activities and increase their incomes and assets, and increase self-confidence by creating an enabling environment for the growth of political participation and democracy.

Successful implementations of poverty alleviation strategies like micro-enterprise development backed by financial services development accelerates economic growth by removing constraints of micro-entrepreneurs (Beck, Demirguc-Kunt and Levine,

2004; Koveos& Randhawa, 2004; Cull *etal.*, 2008). Robinson, 2001 also contends that "Among the economically active poor of the developing world, there is strong demand for small-scale commercial financial services—for both credit and savings. Where available, these and other financial services help low income people improve household and enterprise management, increase productivity, smooth income flows and consumption cost, enlarge and diversify their micro-business and increase their incomes."

Microfinance institutions (MFIs) have established themselves as the financial intermediaries for the marginalized unbanked group of the society. In this regard they have developed and delivered financial services in the low-end market for decades with success. The rationale behind this argument is that microfinance institution that promote improved access and efficient provision of financial products in turn enable the poor to manage and build their asset base gradually for improved quality of life. The poor, low-income groups and those excluded from mainstream banking receive financial services from MFIs so that these groups can come out of poverty through increased income and access to more choices with reduced risk, among other things. Thus, to bring sustainable impact on poverty eradication, MFIs must be efficient and financially viable institutions that can develop the financial leverage to expand outreach at a sustainable level (UN/OSCAL, 2000).

The success enjoyed by a few MFIs in simultaneously expanding outreach and improving sustainability helped governments, donors, and practitioners share a view that microfinance was a critical tool for promoting economic development and reducing poverty (Charitonenko and Campion, 2003). Accordingly, access to

efficient/affordable financial services is very much useful in poverty alleviation and other development plans. Here, microfinance enables the poor to better manage the uncertainties underpinning their economic (and social) vulnerability – such as unemployment, natural disasters, and seasonal fluctuations in income (www.cgap.org/html/mi_about_history.html). Indeed, poverty alleviation strategy and achievement of millennium development goals (MDGs) in many developing countries very much depend on the success of microfinance as a business model and other market based approaches to poverty reduction and development. Therefore, a country needs to have sound financial systems to offer appropriate access for people to obtain money to improve their standard of living.

2.1.3 Paradigms of Microfinance

Microfinance services may be provided by various types of organizations. Those organizations are NGOs, regulated financial institutions including non-bank financial institutions, commercial banks, and state-owned banks. Eventually, most microcredit service providers, which are under the trend of microfinance revolution since 1990s, have transformed into regulated microfinance institutions and scaled up products and services. Scholars consider that paradigm of microfinance has shifted from old paradigm of subsidized credit delivery to new paradigm of financial-self sustainability.

Table 2.1: Microfinance paradigms shift

Features	Old: Subsidized Micro-credit	New: Commercialized Financial Services
1. Chief aims	Boost agricultural production, and Reduce poverty	Reduce market imperfections and transaction cost for income expansion, and poverty reduction
2.Role of financial markets	Help the poor, and Stimulate production	Intermediate efficiently
3. View of users	Beneficiaries and seen as more or less "deserving" of support.	Clients: borrowers and depositors, and seen as micro-entrepreneurs.
4. Subsidies	Heavily subsidy dependents	Increasing independent of subsidy
5. Source of funds	Vertical: governments and donors	Horizontal: primarily voluntary deposits& commercial borrowings
6. Sustainability	Largely ignored	Major concern
7. Outreach	Short term focus	Long term concern
8. Evaluation	Credit impact on beneficiaries- mainly by using primary data	Performance of financial institution-mostly by using secondary information

Source: Adopted from Charitonenko and Campion, 2003; Robinson, 2001; Vogel and Adams, 1997; Yaron, Benjamin, and Piprek 1997.

In the old paradigm of subsidized microcredit delivery, Robinson (2001) mentions that the implementation of supply-led finance does not take into account social and political realities of life in rural areas of developing countries or financial dynamics of their rural markets. As such, large-scale subsidized programs have led to often massive problems such as credit services do not reach poor people, repayment rate is normally low, and loan loss rate is high. According to Charitonenko and Campion (2003), in the past, government and donors supported many subsidized lending programs to spur economic growth and agricultural development. It is now widely acknowledged that subsidized credit leads to excess demand and that the benefits of receiving cheap loans are generally reaped by relatively wealthy and politically connected farmers rather than by the targeted smallholders (ibid).

During the 1990s, greater consensus than ever before emerged about what was needed to make microfinance sustainable and these became known as industry "best practices." The revolution in microfinance for the poor over the last two decades was led by practitioners who developed methodologies that achieve very high rates of repayment and cost recovery and also reach predominantly poor clients, especially women (Robinson, 2001).In the past, the failure to charge interest rates sufficient to cover costs and enforce repayment meant that subsidies were largely absorbed in covering operating costs and loan losses, while only a select few benefited from the limited number of subsidized loans that could be delivered (ibid). Here, when microfinance institutions lack a focus on financial viability, they may be unable to manage loan delinquency, and normally they may not achieve financial self-sufficiency.

Today, the emphasis is on building commercial approaches to microfinance that can increase both scale and outreach to the urban and/or rural poor through a range of reliable financial services (including savings, money transfers, and insurance, as well as credit) with decreasing dependence on external donor funding (ibid).In contrast to the old paradigm, the new paradigm operates as an independent self-financial institution model. The model can be recognized as commercial microfinance operation that can attain wide outreach and sustainability (Robinson, 2001). He also argued that the commercial microfinance providers may attain wide outreach sustainably by having access to commercial fund market and through savings mobilization. In this new paradigm, microfinance institutions may provide both large scale saving services and profitable credit that operate outside the subsidized credit model and in self-sufficient commercial manners. To this end, reliable access to credit is more important to small farmers and other micro-entrepreneurs than the interest rate for production and investment decisions (Charitonenko and Campion, 2003). This argument also suggested that the poor demand access to credit, not "cheap" credit' (Morduch, 2000). Meyer (2002) also noted that the poor needed to have access to financial service on long-term basis rather than just a onetime financial support. He also stated that the financial un-sustainability in the MFI arises due to low repayment rate or un-materialization of funds promised by donors or governments. In addition, a significant proportion of the rural community has proved to be willing and able to save, as deposit mobilization is increasingly used as a tool for expanding outreach and achieving financial self-sufficiency (Charitonenko and Campion, 2003).

This paradigm give due emphasizes on microfinance operations commercialization that can expand their services as sustainable financial intermediation for the economically active poor or micro-entrepreneurs. Thus, ensuring sustainability and expanding outreach are very critical tools for promoting economic development and reducing poverty (Robinson, 2001; and Charitonenko and Campion, 2003).

2.1.4 A 'New Road' Commercialization of Microfinance

As we discussed earlier, traditionally, micro-credit services were offered by NGOs with donor support for their programmes, and government development programs with tax payers' money or other subsides. However, in the 1990's, while many of the NGOs failed to reach scale or financial sustainability and subsidies are not available in the quantities necessary to fuel the growing microfinance sector and led to often massive problems. For example, subsidized credit services do not reach poor people, repayment rate is normally low, and loan loss rate is high. Besides, corruption occurs and loans often reach better off rather than poorer villagers because loans are subsidized and limited (Robinson, 2001).According to James C. Brau (2004), the primary cause for the failure of micro-credit agencies established by LDC governments during 1960s and 1970s was lack of "institutional viability" Gonzalez-Vega (1994). Institutional sustainability was key to successful provision of financial services to the poor, and financial self-sufficiency was a necessary condition for institutional sustainability.

Over time, even the support decreased in the mid-1990s and has been defined by shifts from less reliable provision of subsidized finance to cost-effective and commercial finance backed by sustainable programmes (UNEPFI, 2007; Arch, 2005). This

operating environment has orchestrated a financing constraint in the industry leading to the quest for sustainability of MFIs. To this end, Bennett and Cuevas (1996) noted that the need of building sustainable financial systems for the poor from three perspectives: a) financial sector development, b) enterprise formation and growth, and c) poverty reduction. Moreover, the World Microcredit Summit Campaign, in its website for Countdown 2005, has also outlined microfinance best practices as" ensuring loan repayment, moving towards institutional sustainability, targeting the poorest and covering costs, sustainability in industrialized countries, empowering women, establishment and use of poverty measurement tools, measuring impact on the lives of clients, mobilizing savings and ensuring their safe use, and recruiting, training and retaining excellent staff"(Jammeh, 2002)

As microfinance is recognized as a common term for development and poverty reduction, the combined term "commercialization" makes microfinance more complicated and comprehensive. This microfinance moves along a 'new road' with the creeping commercialization of the microfinance sector, most discussion now rotates around profitability, sustainability and risk minimization. Thus, understanding the terminology and the concept of commercialization of microfinance is the essence of this study. There are two important concepts relating to "commercialization of microfinance". First, "commercialization of microfinance" is generally conceptualized by microfinance experts as "the application of market-based principles to microfinance" or "the expansion of profit-driven microfinance operations" (Poyo and Young, 1999). Christen (2001) also explains that commercial approach to microfinance is characterized by profitability, competition, and regulation. Besides, it is being

increasingly forcefully argued that commercialization allows greater opportunity for MFIs to fulfill their social objectives through enhancing access to a wide range of supply gap in microfinance services along with demand-driven products and services to the poor (Charitonenko and Campion, 2003). This would lead to product improvement and strategy development for a competition in an environment with many microfinance operators. In order to gain access to commercial funds, microfinance institutions may transform themselves into regulated institutions enabling to mobilize public deposits. Thus, regulation is important for many operators to enter the formal financial system (Christen 2001).

Besides, Christen and Drake (2002) conceptualize commercialization of microfinance as "the movement of microfinance out of the heavily donor-dependent arena of subsidized operations into one in which microfinance institutions 'manage on a business basis' as part of the regulated financial system" (Christen and Drake 2002). This concept is more precise than the first one, because it captures three points characterizing microfinance commercialization. These are the independence of MFIs, applications of business principle, and formal financial system integration. Commercialization is also referred to as the movement out of the heavily donor-dependent sector of subsidized operations into one in which microfinance institutions are financially self-sufficient/institutionally sustainable and sustained and are a part of the regular (or formal) financial system (Ledgerwood and White, 2006). The need for commercialization, other than the increase in outreach, is prompted by strive for building viable and sustainable institutions. Some of the key characteristics of a strong Microfinance institution are the availability of "appropriate financial services",

"financial sustainability", "administration and finance", " management information system" and "relevant management" and "affordable prices"(Joanna Ledgerwood, 1999).When MFIs become regulated institutions, they can promote public savings mobilization. Accordingly, CGAP (2007) suggests that, to serve massive numbers of the poor with high-quality financial services MFIs have to tap into commercial sources of funding and deposits. Market-oriented financing is easily achievable when an MFI operates like a business rather than a conduit for donations (Emeni, 2008 and Hartungi, 2007).

The basic principle of business-like approaches enables MFIs to increase competition which results in the improvement of product design, delivery systems, and increased outreach. Accordingly, Charitonenko (2003) noted that cost control, operational efficiency and providing 'demand-driven' financial services to the poor have all been promoted through commercialism, 'market' or 'businesslike' approaches. Besides, competition is forcing MFIs to change their strategy and operations: they try to lower costs and increase efficiency, they lower interest rates, and they offer new financial services such as insurance and savings accounts (Rhyne and Otero, 2006).

Accordingly, MFIs commercialization paradigm fosters changes in funding pattern; from donor dependence to sustainable profitable institutions that are able to attract equity and mobilize deposits. Commercial sources of finance are promising in volume and availability. In addition to change in funding pattern, commercialization promotes efficiency and target market friendly operations in terms of product and service. And there is a growing realization in the international arena that commercialization allows MFIs greater opportunity to fulfill their social objectives of expanding access of the

poor to an array of demand-driven microfinance products and services on a sustainable basis. Thus sustainability and commercialization are two sides to the same story – the realization that if the field of microfinance is to expand its scale beyond the supply of capital from non-profit sources, it must begin to tap the capital markets.

Commercialization along with competition for both funding and clients, requires on one hand charging clients the full cost of the delivered services, while on the other hand managing cost structures to ensure sufficient returns to pay for the more expensive commercial funds. This includes effectively managing risks, having good corporate governance, and increasing the level of transparency in both individual MFIs and the industry as a whole. These tasks are by no means easy – even major banking corporations in developed economies have obvious difficulties achieving such goals, as recent events have clearly shown. MFIs will need the cooperation of all market participants to ensure the continued growth of microfinance – and thus the continued impact on poverty alleviation in developing countries.

As summary, this study conceives 'microfinance commercialization' as denoted by Charitonenko and Campion, 2003; Christen and Drake, 2002; Christen, 2001 and Lewis, 2008.

Adoption of business-like approaches to MFI administrations and operations, such as developing diversified demand-driven/target market oriented products and services, and applying cost-recovery interest rates.

Progression toward operational and financial self-sufficiency (sustainability indicators) by increasing cost recovery and efficiency, strengthening risk management as well as expanding outreach.

Use of commercial sources of funds; for example, non-subsidized loans from apex organizations (wholesale lending institutions) or commercial banks, voluntary savings, investor equity or other market-based funding sources.

2.1.5 Microfinance Commercialization Debates

Although the rationale for microfinance commercialization is simple as mentioned above, there are two significant controversial views. These constitute poverty lending and financial-self sustainability approaches. The debates on commercial microfinance begins with the argument that whether commercial approach is concerned on the ultimate objective of microfinance; the poverty alleviation. Because, the poverty oriented microfinance institutions will prioritize the impact that the lending programme is having and the level of clients' poverty. However, commercially oriented microfinance institutions believe that a permanent impact can only be realized if services and products can be provided in a sustainable manner.

The camp of poverty reduction approach (also known as old paradigm or the welfarist approach) declares that the ultimate goals of microfinance should be poverty alleviation and empowerment (Woller et al. 2000). Many MFIs mainly focus on instantly improving the well-being of participants. He recognizes that their objective tends to be self-employment for the poorer among the economically active poor, especially women whose control of reasonable increases in income and savings are

assumed to empower them for improving living conditions. In this regards, Welfarists believe that many of the poor households who participate in microfinance programmes are not capable of bearing the burden of commercial loans which carry market interest rates-especially since market rates for the target sector can be excruciatingly high. According to welfarists, subsidies and donor funding are the only way to accomplish the poverty-reduction objective (Ledgerwood, 1999). Therefore, *welfarist* approach dictates that the introduction of profit motive into microfinance program necessarily distorts the actual mission of microfinance institutions–namely reducing poverty - and potentially 'degrades an organization's commitment to the very poor, who will be crowded out by less poor clients'.

The camp of financial self-sustainability approach (also refers to the institutionalist approach, commercialization approach or the new paradigm), takes the view that the overall goal of microfinance is a sustainable provision of financial services for low-income people (Bharti, Bhargava, Bellur 2006, and Gulli 1998). MFIs can be sufficiently self-financed whenever fees and interest incomes cover the real costs of funds, loan loss reserves, operational costs, inflation, and appropriate profits (Otero & Rhyne, 1994). There is no sufficient amount of subsidy warranted to preserve the long term access to basic financial services for a large number of poor households and enterprises without achieving financial sustainability (Christen, 2001). Financial self-sufficiency is achieved when the program is financed from the savings of clients and capital raised at commercial rates generated from other formal financial institutions (Otero & Rhyne 1994). Hence, transforming subsidized microfinance operations into commercial institutions was recognized as a one of the strategies to ensure financial

self-sustainability. Charitonenko (2003) also noted that cost control, operational efficiency and providing 'demand-driven' products and services to the poor have all been promoted through commercialism, 'market' or 'businesslike' approaches. Thus, this approach enables MFIs to improve product design, delivery systems, and outreach as a result of increased competition. Besides, competition is forcing MFIs to change their strategy and operations: they try to lower costs and increase efficiency, they lower interest rates, and they offer new financial services such as insurance and savings accounts (Rhyne and Otero, 2006).

Therefore, Institutionalists/ financial self-sufficiency or commercialization approach, promote a business-oriented model as necessary step in order to provide sustainable and high 'quality' financial services to the poor. This group also believes that the success of microfinance, both in terms of poverty reduction through reaching a maximum number of poor households, and its sustainability, which were largely depend on its ability to adopt principles of commercialization in all its operations. Moreover, institutionalists noted that development oriented funding agencies have limited resources compared to the potential demand from poor households. In order to encourage a greater inflow of financial resources, the sector has to attract private capital. This, in turn, requires that the sector can show a reasonably high return on investment, covering both operational and financial costs. A key principle behind commercialization is that 'poor households demand access to credit, not "cheap" credit' (Morduch, 2000). To this end, MFIs can charge high interest rates to cover all costs and probable related risks without losing outreach.

The tradeoffs between the two mentioned paradigms are intensely debated among microfinance practitioners and scholars. In this regard, a third paradigm has emerged as the "middle ground" between the old and the new paradigm. The purpose of this middle ground paradigm is to promote balancing the goals of poverty reduction and financial self-sustainability. Scholars such as Christen (2001) and Woller et al. (2000) note that poverty reduction and financial sustainability can be achieved if financial institutions develop services and products such as delivery method, interest rate setting, diversification and qualification of product and service, and procedure simplification to meet the needs of all clients at an affordable rate. Besides, the third dimension of investment in the sector, appealing to those who found it hard to reconcile their investments with the objectives of long-term human and environmental sustainability. This challenge of aligning economic growth and human needs with environmental conservation has created an awareness of sustainable development among leading actors worldwide. Those investors have created a demand for "triple bottom-line" investments (people, planet, profit).

2.1.6 Microfinance Commercialization Performances Indicators

Performance of an institution shall be measured from the objectives of the organization angel. Most MFIs were started their operations by donor funds and government subsidies that have a poverty eradication goal. But, recently as the MF industry grows in size, the need for increased financing coupled with unpredictability of donor funds trigger the issue of building a sustainable MFIs that stand on their own leg i.e. MFIs shall start covering their own cost of operation from their program revenues. Thus, the revolution of microfinance towards a commercial approach

depends first and foremost on adequate financial returns. This financial return can strengthen their equity base. Re-investing substantial profits into their equity base has permitted many microfinance institutions to expand operations without continual, substantial direct donor contributions.

The need for commercialization, other than the increase in outreach, is prompted by a strive for building viable and sustainable institutions. Some of the key characteristics of a strong Microfinance institution are the availability of "appropriate financial services", "financial sustainability", "administration and finance", "management information system" and "relevant management" and "affordable prices" Ledgerwood (1999). All of the features of a successful microfinance institution could be found in the commercial institutions that have developed in the recent ten years. Larger and more advanced financial institutions use the economy of scale and scope to afford lower prices and have more customers. Their funding is also independent of irregular donor subsidies. Profitability is also significantly large in order to attract commercial investors. Increase in industry profits also means an increase in competition that could potentially lower prices for borrowers. This change in emphasis has created a different perspective on the analysis of performance of the MFIs. Today many key plays in the industry use sustainability as one the core criteria to evaluate the performance of MFIs besides the outreach and impact measures described earlier. Within these different perspectives, MF performances are measured by using standardized indicators identified by Ledgerwood (1999) and CGAP (2003). These include Looking at microfinance and MFIs on a broader level, sustainability must be a necessary condition

if the MFIs and the microfinance field as a whole are to deliver on their purpose: ensuring continued availability of credit for low-income borrowers.

Within the aforementioned different perspectives, MF commercialization performances can also be measured by using standardized indicators identified by Ledgerwood (1999) and CGAP (2003).These indicators include:

Target market-oriented products and services: diverse target market-oriented microfinance products and services are considered as one of the signals for commercialization. Increasing the mixes of the products and services reveals that MFIs better responding to their target market.

Yield on loan portfolio: It is proxy of financial revenue and used to test the revenue generated per unit of currency lent. It comprises interest income from loan, fees and commission basically related with operation. Computed by dividing the total financial revenue (interest from loan, fees and commissions) to average loan portfolio.

Expenses ratio: It is a proxy for efficiency and used to test costs incurred per unit of currency lent. Efficiency also refers to how well the MFI controls its operating costs. Common efficiency ratios include operating efficiency ratio, and cost per client/borrower.

Profitability and Sustainability Indicators: These indicators measure the MFI net operating income (total operating revenue less total expenses) after tax in relation to the structure of its balance sheet. Common measures include Return on Assets, and Return on Equity. Financial viability refers to the ability of the MFI to cover its costs with earned revenue. A financially viable MFI will not rely on donor funding to

subsidize its operation. Common indicators here include financial spread, Operational Self Sustainability (OSS) and Financial Self Sustainability (FSS) and Subsidy dependence index.

Portfolio Quality Indicators: Portfolio quality ratios provide information on the percentage of non-earning assets, which in turn decrease the revenue and liquidity position of MFIs. Some of the measures used include the portfolio at risk ratio, loan loss reserve ratio, and write-off ratio.

Breadth and Depth of Outreach. These are nonfinancial indicators of performance. Scale/ breadth of outreach is measured by the number of clients served with different type of instruments such as saving and credit. Depth of outreach measures the type of clients served and their poverty level. The proxy for depth of outreach used in various studies (such as Cull et al, 2008; Hartarska et al, 2007; Mersland and Storm, 2007) are average loan size per GNI per capita, the percentage of women borrowers and percentage of rural clients. According to this authors, poverty targeted MFIs are expected to have more percentage of women borrowers and or low average outstanding loan balance per GNI per capita. Average outstanding balance is roughly related to client poverty, because better off clients tend to be uninterested in smaller loans or deposit accounts. However, Low account sizes do not guarantee a poor clientele.

Funding Structure: Financing structure refers to the extent to which MFI finance its assets including loan. In other words, it answers the question of how many additional funds can be mobilized from commercial sources. The tools to measure financing

structure are equity to assets ratio, borrowings to loan ratio, commercial borrowings to loan ratio, saving to loan ratio, and donations to assets.

To this end, these indicators are generally accepted tools applied to examine the financial and operational performances of MFIs. Thus, the study also used these indicators to asses and analyzes commercialization performances of MFIs.

2.2 Empirical Literature Review on Microfinance Commercialization

Empirical researches were done on microfinance commercialization were conducted at different parts of the worlds to assess its implications on mission drift. To mention some, Christen (2001); Charitonenko, C. (2003); Lafourcade et al, 2005, UNEP FI (2007), Hishigsuren (2007), Gonzalez & Rosenberg (2009) and Kiweu (2009). Accordingly, the authors globally identified the MFIs that have gone through a process of commercialization include institutions like BRI in Indonesia, the Grameen Bank, BancoSol, and K-Rep in Kenya (USAID, 2005; INAFI Africa, 2003). Several commercial banks have also downscaled to the microfinance market with examples in Africa such as Equity Bank (Kenya), Centenary Bank (Uganda) and National Microfinance Bank (Tanzania). Institutions emerging from this process form a new market of socially responsible institutions that are financially self-sufficient (hereafter referred to as commercialized institutions (CIs)). CIs generally have the ability to interact, contract and do business with the wider commercial market, while emphasizing microfinance clients as their niche market. Here, Bank Rakayat Indonesia was one of the very first institutions that moved in this new direction, adopting a

'financial system approach' (Bateman, 2010). In 1984, the end result was the establishment of Unit-Desa (BRI-UD) which was wholly profit-oriented organization and was designed to offer 'Kupedes' microloans which were based on the market interest rate (Ibid). This institution rapidly grew and by the end of 2004 it had 30 million savers and 3.1 million borrowers (Robinson, 2001).The success for such MFIs depends largely on well-trained loan officers, infrastructure development and better trained managers (Callaghan, Gonzalez, Maurice and Novak, 2007).

The study conducted on the global microfinance performance by using the data from 124 MFIs from 49 developing countries (Cull et al, 2007), reveals that the average Financial Self Sufficiency (FSS) is found to be 1.035 meaning MFIs are becoming financially self- sufficient, and OSS is a bit greater 1.165. Nonetheless, the number of profitable MFIs (after adjusting for subsides) is usually quoted as a small fraction. According to Gonzalez & Rosenberg (2009) research based on a database of 2,600 MFIs indicates that around 44 percent of micro-borrowers are served by profitable institutions though the number is very limited.

Besides, Hishigsuren (2007) case study of leading MFIs in Bangladesh also showed a thorough analysis by using survey, archival and interviews from different stakeholders to find the mission drift of institutions. This detailed case study of MFI found out that there is no significant mission drift occurred in terms of depth, quality and scope of outreach. However, conclusion also depicted that mission drift can be possible because of the deliberate decisions by the management or board and with the scaling up process. In addition, Christen (2001) questioned whether commercialization leads to mission drift. He inventoried 205 MFIs in Latin America, where seventy-seven MFIs

(37.6%) were regulated and accounted for 73.9% of a US$ 877 million portfolio. While unregulated MFIs recorded an average outstanding loan size of US$ 322 in 1999, regulated institutions recorded US$ 803, which is 2.5 times larger. He assessed in terms of relative wealth, the average outstanding loan size for unregulated MFIs represented 24% of GNP per capita in 1999, while for regulated MFIs this percentage was 49%. However, he contends that "loan sizes are not necessarily an indication of mission drift and could be a function of different factors". First, changes in the average loan size of MFI could result from the "generational factor". He claims that being part of the first generation of institutions in the market or targeting the first generation of microfinance clients in the market affects the MFI's targeting. Second, average loan size should be considered as a deliberate choice made by the MFI. Depending on the MFIs' objectives, institutions may differ widely in the targeting of microfinance clients. Plus, objectives and the targeting on microfinance clients may change over time. Finally, he also argued that average loan balances of MFIs in Latin America show a natural evolution over time. He added that "the average loan balance of a typical MFIs could easily double or triple as both the programme and its target group mature".

According to Jansson (2003) reports, in a study (transforming institutions) of 97 MFIs in 14 countries that regulated institutions tend to rely less on subsidized funds and more on savings deposits (Pollinger, *et al.*, 2007; Callaghan, *et al.*,2007). Besides, Kiweu (2009) study of microfinance commercialization success factors contends that the trend is promising or an indication of strategic direction. Thus, the percentage of the portfolio being financed by commercial fund is increasing while the percentage financed by donations, internal resources and share capital has continued to decrease

over time. According to him, MFI's mission and its overall sustainability (profitability and liquidity) strategy, growth prospects coupled with adequate disclosure of financial reports is associated with successful commercialization.

Study conducted by Lafourcade et al, 2006 on the outreach and financial performance of Microfinance institutions in Africa shows that in terms of breadth of outreach, sub-Saharan MFIs have a higher number of savers than other regions of the world. However, in terms of number of borrowers, Africa is lagging behind South Asia and East Asia and the Pacific. In terms of depth of outreach measured by the percentage of women borrowers, sub-Saharan Africa has 61% women borrowers as compared to 86% in south Asia and 80% in Middle East and North Africa (MENA) and 76% in East Asia and Pacific. Sub-Saharan Africa MFI has the lowest financial performance of ROA of 2% as compared to 7.6%-10% of Eastern Europe and Central Asia.

Besides, UNEP FI (2007) in a survey of commercial microfinance practices across Africa report that, commercial microfinance is a significantly less prominent trend than in Asia and Latin America. The study points out that, Africa attracts a relatively low share of foreign quasi-commercial investment for microfinance 7 percent, for example, compared to 28 per cent for Latin America and the Caribbean. The figures for purely commercial investment are predicted to be even lower.

Mersland and Strøm (2009) focus more exclusively on mission drift in an investigation of the influence of average profits and costs on different outreach indicators. They use panel data: their dataset consists of 379 rated MFIs in 74 countries collected by rating agencies during the years 2001 to 2008. The proxy used for outreach is average loan

size. No evidence is found on mission drift in the industry as a whole, but the size of the average loan does increase with average profits. This suggests that seeking higher financial returns might cause mission drift, in contrast to the implications of Cull and Demirguc-Kunt's (2006) results. However, the authors find that average cost is a more important determinant of average loan size than average profit. They conclude that being most efficient may thus neutralize the effect of higher profits on outreach.

Cull et al. (2009) analyze data on 346 MFIs from the MIX Market database, from the period 2002 to 2004. They do not use regression analysis, but simply compare mean average loan sizes of MFIs with different charter types. They find that NGOs have smaller average loan sizes and a higher proportion of female clients than banks. They conclude that the assumed trade-off between pursuing profits and having deep outreach indeed seems to exist, but they do note that measurements used are only proxies for client income instead of direct measures. Hermes et al.(2011) focus on efficiency of MFIs in a study on 435 MFIs over a period of 11 years (1999-2007). They find that MFIs with lower average loan balances are also less efficient. In addition, their research shows that MFIs with a higher percentage of women borrowers are less efficient as well. They conclude that this is bad news in view of the current commercialization of the industry, since commercialization may induce a stronger emphasis on efficiency and MFIs seem only to be able to improve efficiency by decreasing their focus on the poor.

2.3 Conceptual Framework Used to Study Commercialization of Microfinance

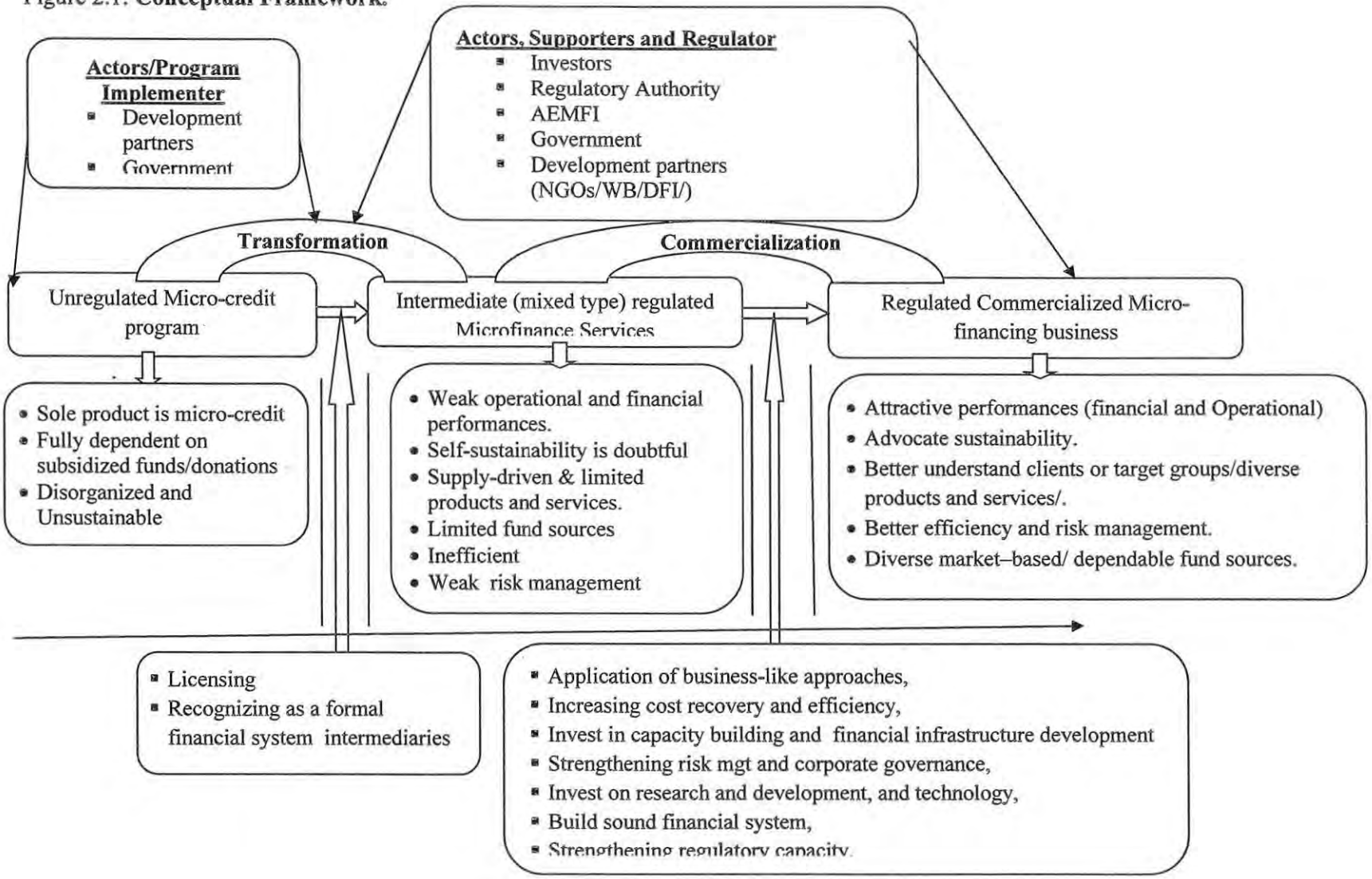
In the past micro-credit service was extended to the excluded segments by the government and development partners in a very disorganized manner. Here, the programs were also fully run by irregular funding basis such as donations and tax payers' money. To this end, maintaining good financial disciplines and ensuring longevity of the services to the needy people became an empirical enquiry that need to be answered. Accordingly, since 1990, the adoption of business-like approaches in all aspects of micro-financing business operations and administrations were considered as a new paradigm to ensure the longevity of microfinance services to the excluded segments along with better financial disciplines. This revolution in microfinance business has expected to bring high rates of loan repayment, cost recovery, efficiency and better services to the target market or groups. Here, progression towards operational and financial self-sufficiency by increasing cost recovery and efficiency, and fostering commendable credit discipline have also considered as key strategies in commercialization of microfinance. Besides, commercialization of microfinance leads to better compositions of target market oriented products and services, and use of market-based fund sources, which are believed to be dependable.

Commercialization of microfinance has also a series of successive stages that start form transformation of unregulated micro-credit program to regulated fully commercialized microfinance services. Hence, commercialization of microfinance requires the

cooperation of various stakeholders such as government, investors, development partners (NGOs, DFIs and WB), rating agencies and others.

Thus, commercialization performances achievements, challenges and implications of MFIs can be examined by using both secondary and primary data analysis about existing microfinance products and services mix/composition; pricing of products and services (yield); efficiency (expenses ratio), credit risk exposure level (PAR>90 days), profitability and sustainability, and funding structure and outreach . In addition to the review of the legal infrastructures of the country and some strategic documents of the actors with regards to commercialization of their microfinance business, the study has addressed the reflections/opinions of the actors and key stakeholders as key inputs along with the researcher observations.

Figure 2.1: **Conceptual Framework.**



Chapter Three

Research Design and Sampling

This section presents the techniques that adopted in the study to answer the identified objectives. It begins with a description of the sample, data types & sources, and procedures, and then goes to describe the techniques and variables employed to review and analyze microfinance operations commercialization achievements, challenges and implications in the case of selected microfinance institutions in Ethiopia.

3.1 Research Design

To realize the research objectives, the study adopted both quantitative and qualitative research approaches (mixed type). Quantitative research approach was employed for the systematic empirical investigations of the phenomena in quantitative properties and their relationships. Accordingly, descriptive research technique was adopted to assess microfinance commercialization performances by using existing secondary data of participating MFIs and industry. Qualitative research approach was also adopted to examine all non-numeric information such ideas, opinions and perceptions about commercialization of microfinance. Such explanatory research technique was applied to review and analyze the existing situations about microfinance commercialization achievements, challenges and implications, and augment descriptive study findings.

3.2 Sampling

Due to the difficulty of getting time series constructive secondary data of some MFIs to set up comparisons with respect to different categories of MFIs and conduct trend analysis to address the research objectives, the researcher employed purposive sampling to select the participating MFIs from the total population of thirty one. Thus, the study has employed non probability sampling technique called purposeful sampling. Ease access to conduct primary study also considered as one of the factors for the researcher to adopt purposive sampling due to time and finance constraints. To augment secondary data analysis findings, the researcher has conducted primary study in light of microfinance operations commercialization achievements, challenges and implications. At this juncture, the researcher distributed structured questionnaire for all participating MFIs which were selected purposefully to address the research objective. Besides, the researcher identified the key stockholders (NBE and AEMFI) of MFIs in Ethiopia and distributed structured questionnaire designed in line with their roles and responsibilities to their senior staff. Here, four senior microfinance supervision experts of NBE including director, and two senior experts of AEMFI were selected purposefully so as to get better input for the study.

As at June 30, 2013, thirty one microfinance institutions are operating in Ethiopia and serving the poor people who are neglected by conventional financial institutions such as commercial banks (NBE, 2013). Out of 31 MFIs, the study addressed 16 MFIs (≈52% of the total population) which have better time series constructive secondary data and ease access to conduct qualitative study in light of research objectives. The

sample size for the study believed to be representative for the sector as it has incorporated more than half of the population.

Table 3.1: Sample MFIs the study addressed:

No	Name of Selected MFI	Age category	Size/Scale	Affiliations
1	Addis Credit &Saving Institution	12 (Mature)	Large	Addis Ababa City Administration
2	Amhara Credit &Saving Institution	16 (Mature)	Large	Region government (Amhara)
3	Oromia Credit &Saving Institution	16 (Mature)	Large	Region government (Oromia)
4	Omo Microfinance Institution	16 (Mature)	Large	Region government (SNNPRS)
5	Gasha Microfinance Institution	14 (Mature)	Medium	NGO-backed
6	Wisdom Microfinance Institution	14 (Mature)	Large	NGO-backed
7	Harbu Microfinance Institution	8 (Young)	Medium	NGO-backed
8	Metemamen Microfinance Institution	10 (Mature)	Medium	NGO-backed
9	Wasasa Microfinance Institution	13 (Mature)	Large	NGO-backed
10	Meklit Microfinance Institution	13 (Mature)	Medium	NGO-backed
11	Aggar Microfinance Institution	9 (Young)	Medium	Investors' owned (Eth)
12	Lefayeda Microfinance Institution	6 (Young	Small	Investors' owned (Eth)
13	Dynamic Microfinance Institution	6 (Young)	Small	Investors' owned (Eth)
14	Letta Microfinance Institution	9 (Young)	Medium	NGO-backed
15	Degaf Microfinance Institution	9 (Young)	Small	NGO-backed
16	Africa Village Financial Services	14 (mature)	Medium	NGO-backed

Source: National Bank of Ethiopia (2013)

As indicated in the tables 3.1 above, the sample MFIs are categorized based on age, loan portfolio size/operational scale and affiliations so as to conduct in-depth comparative analysis among the categories to answer the research objectives and test hypothesis. This categorization, especially scale and age based categories were also usually applied by AEMFI and MBB for MFIs performances comparative analysis. Here, six sample MFIs (AdCSI, ACSI, OCSSCO, OMO MFI, Wisdom MFI and Wasasa MFI) are grouped under large category which has loan portfolio sizes greater than or equal to Birr 50 million, while seven MFIs (Aggar MFI, Harbu MFI, Meklit MFI, Metamemen MFI, AVFS, Gasha MFI, Letta MFI)are grouped under medium which has loan portfolio sizes between Birr 10 to Birr 50 million and Digaf MFI, Lefayda Credit and Saving Institutions and Dynamic MFI are grouped under small which has loan portfolio size less than or equal to Birr 10 million loan portfolio. In case of age criterion these 16 MFIs are categorized into three: new ($\leq$ 4 years); young (5-8 years), and mature (>8 years) in line with MBB.

3.3 Data Type, Sources and Collection Methods

The researcher intends to use primary and secondary data so as to meet the objectives of the study.

3.3.1 **Primary Data and Sources**: Qualitative information collected through structured questionnaires from selected MFIs and potential stakeholders to explore some facts with respect to microfinance commercialization achievements, challenges and implications. To this end, structured questionnaires designed and distributed to the respondents such as senior

management members of selected/participating MFIs, and key stakeholders (NBE and AEMFI). The questionnaire communicated to the respondents through e-mail and in person. Besides, the researcher observations and practical work experiences in the sector also considered as an input for further strengthening of the study.

3.3.2 **Secondary Data and Sources**: Secondary data for the study secured from the selected/ participating MFIs, AEMFI and National Bank of Ethiopia. To address the recent performances positions of the MFIs, the study used June 30, 2013 as cut of date and also addressed time series data for at least five years to look at the trends of performance.

Moreover, country's legal frameworks and directives associated with micro-financing business also reviewed. Also the study used empirical researches and publications of microfinance industry that were made by different scholars and organizations.

3.4 Analysis and Interpretations

To undertake data analysis, descriptive statistics and standard microfinance performance indicators identified by MIX and CGAP technical guide (2009) were used. To this end, the study has employed adjustments for the factors like inflation and subsidized costs of funds so as to make relatively fair comparisons among different categories of sample MFIs. However, due to data constraints, the researcher unable to conduct adjustments for in kind subsides and loan loss provisioning. Besides, trend

analysis also employed to see the progresses of commercialization performances of the sector, and participating MFIs in particular.

Furthermore, the study applied statistical packages/models called One Way ANOVA and Kuruskal Wallis test to conduct in-depth comparisons on the mean performances of different categories of MFIs. Here, Anderson Darling, normality test was applied to test normality of data belongs to each parameter/indicators, and natural log transformation was applied to the indicators which were not normally distributed. For those variables which were not still been normalized even after natural log transformation, Kurskal Wallis test was applied. Consequently, the study used the outcomes of these packages to see whether there are significant means differences among different categories of MFIs performances in light of commercialization or not, as identified on research hypothesis. Here, the identified hypothesis was:

H_0: $\mu_1=\mu_2=\mu_3$: the means of commercialization performances indicators of all categories of MFIs' are the same (there are no significant means differences at 5% significant level)

H_1: $\mu_1 \neq \mu_2=\mu_3$: the means of commercialization performances indicators of at least one category of MFIs is not the same (there are significant means differences at 5% significance level)

Here, the identified parameters/indicators to test the hypothesis and realize the research objectives are: yield (proxy for pricing of product and service), total expenses to loan ratio (proxy of efficiency), PAR.>90 days (proxy of credit risk exposure level),

profitability (AROA & AROE) and sustainability (OSS & FSS), funding structure and outreach. For the definitions of the parameters see annex table-1. Besides, products and services mixes of the selected MFIs were reviewed to see their tendency of responses to their target market.

The study has also employed Pearson correlation coefficients to address the associations of microfinance commercialization outcomes/performances and explore their implications with respect to microfinance double bottom lines.

In addition to secondary data analysis findings, primary data has also obtained through structured questionnaires from participating MFIs and potential stakeholders about microfinance commercialization achievements, challenges and implications, and analyzed by using descriptive techniques to augment quantitative study findings. Here, the researcher observation also considered as an input for further elaborations of the findings.

Based on the findings, inferences and implications, conclusions and recommendations were drawn. Before conducting any analysis, literatures in connection with microfinance commercialization achievement, challenges and implications were reviewed and documented to understand the state of thought and practices of the microfinance sector of the country. This also helped to grasp the concepts, definitions, opinions and best practices regarding microfinance commercialization.

Chapter Four

Data Analysis and Findings

This section dictates about data presentations, analysis and findings of the study. Here, primary and secondary data collected from the identified sources were scientifically analysed, thoroughly discussed and interpreted.

4.1 Data Presentations

This study designed to review microfinance commercialization achievements, challenges and implications in Ethiopia. Accordingly, the researcher designed conceptual frame works, and analyzed both financial and operational data of purposefully selected MFIs and sector. Besides, structured questionnaire has designed and distributed to the sector actors and key stakeholders so as to explore their impressions about commercialization of microfinance. Furthermore, the researcher has reviewed country legal frameworks and strategic documents to see their notions about microfinance commercialization. Thus, the findings dictated here below are mainly based on secondary data analysis, qualitative study and researcher observations. Here, qualitative study and observations were basically used to augment the objective analysis made by using secondary data.

With regards to qualitative study, structured questionnaires were distributed to the senior management of microfinance institution, senior experts of regulatory body and AEMFI to get their reflections about microfinance operations commercialization and

self-sustainability along with the related challenges and implications. Here, the questionnaires were a bit molded in line with their roles and responsibilities of the respondents. Accordingly, a total of twenty two questionnaires were distributed (one for each 16 participating MFIs, four for regulatory body experts and two for AEMFI), of which 15 (68%) were answered and, there were no responses from five participating MFIs and one from NBE and AEMFI each. The number of questionnaires distributed and responses collected along with respondents' profiles were summarized at annex table-2.

Besides, the researcher reviewed existing legal and regulatory documents such as Micro-financing Business Proclamation No.626/2009 and National Bank Microfinance Institutions Supervision Directives with respect to commercialization of microfinance. Here, the findings of the study shall be presented in connection with quantitative study findings per identified commercialization indicators here below.

For quantitative study, secondary data collected from purposefully selected MFIs, NBE and AEMFI were used. The financial and operational data that can explore microfinance commercialization achievements, implications and challenges were analyzed descriptively and also made in-depth comparative analysis among different MFIs' categories such as affiliations (Gov't-backed MFIs, NGO-backed MFIs, and Investors' owned MFIs), and loan portfolio sizes/scale (Large, Medium and Small) by using parametric (ANOA) and non-parametric (Kurskal Wallis) tests. Besides, Pearson Correlation applied to see the associations between the identified commercialization performance indicators (yield, efficiency, credit risk exposure level, profitability and sustainability, funding structure and outreach). For data normality test, Anderson-

Darling normality test was applied, and Leven statistic also used to test homogeneity of variances. Log transformation also made to normalize non normal data of some indicators. Before in-depth analysis of each identified parameters/indicators, we need to look at the development and structure of microfinance sector in Ethiopia so as to have good understanding of the sector.

4.2 Microfinance Sector Development in Ethiopia

Before 1996, microcredit services in Ethiopia were extended to the excluded segments of the societies by some government programs and development partners in a very disorganized manner (Amha, 2012). Since 1996 as a result of increasing demand for financial services and irregularity of subsides/supports, government of Ethiopia has given due attention for the formation of formal microfinance service providers so as to extend full package of financial services to unbanked segments of the societies in an organized and sustainable manner as one of the key strategies to bring sustainable and inclusive development in the country. To this end, the government of Ethiopia has designed the legal and regulatory frameworks that facilitate the formation of formal microfinance institutions as a business entity in the form of Share Company, and foster soundness of the sector. Here, the government issued Microfinance Institutions licensing and supervision Proclamation No. 40/1996 which was revised and replaced by Micro-Financing Business Proclamation No.626/2009 so as to enhance the development and soundness of the microfinance industry. Besides, NBE has issued various licensing and supervision Directives so as to foster institutionalization, sustainability, accountability and transparency of the sector.

These legal frameworks also encouraged the transformation of disorganized microcredit programs used to run by the government units and development partners in to formal financial system as Share Company by having a license from the central bank of the country, and avert unlicensed provisions. This revolution brought redefinition and reorientation of mission statement, vision and objectives of the actors that used to provide only micro-credit services. Here, the most important change of direction was also building sustainable financial services delivery system followed by mobilizing savings, charging reasonable interest rates on loan sufficient to cover operational costs and probable risks, applying financial discipline through strict loan recovery procedures and loan follow up, developing proper lending methodologies, reducing transaction costs and increasing outreach.

Currently, thirty one MFIs have been operating in Ethiopia (NBE, 2013). With regards to MFIs' performances analysis, as at June 30, 2013, Ethiopian microfinance institution extended loan amount Birr 12.8 billion for the total of 3.2million borrowers. As of the same date, the institutions mobilized Birr 5.2 billion voluntary savings, and reported 1.4% unadjusted returns on assets (ROA) and 155.7% operational self-sufficiency (OSS). This implies that Ethiopian MFIs registered remarkable performances interims of outreach and profitability. As indicated in the table 4.1 below, over the last eight years (2005-2013), the number of borrowers, loan outstanding value and voluntary savings on average grew by 23%, 32% and 37%, respectively. Similarly, ROA and OSS on average grew by 0.4% and 3.6%, respectively. This indicated that microfinance sector of the country is sound, healthy, and growing smoothly, though there are variations among the actors. For details see table 4.1 below

Table 4.1: Tends of Microfinance sector development in Ethiopia.

Year	Outreach			Profitability & Sustainability	
	No. borrowers (in millions)	Loan outstanding (in millions of Birr)	Voluntary savings (in millions of Birr)	ROA	OSS
2005	0.9	1,229.6	364.8	-2.0%	123.0%
2006	1.3	2,045.1	466.5	-4.0%	131.0%
2007	1.7	3,058.5	722.9	-6.0%	127.0%
2008	2.2	4,691.4	754.2	1.0%	119.0%
2009	2.2	4,892.6	1,411.6	2.0%	129.0%
2010	2.3	5,706.4	1,738.6	2.7%	106.3%
2011	2.5	7,157.8	2,764.8	1.0%	119.0%
2012	2.6	8,871.7	3,794.3	5.4%	171.5%
2013	3.2	12,784.5	5,164.9	1.4%	155.7%
Average annual growth rate	23%	32%	37%	0.4%	3.6%

Source: Researcher computation based on AEMFI and NBE publications

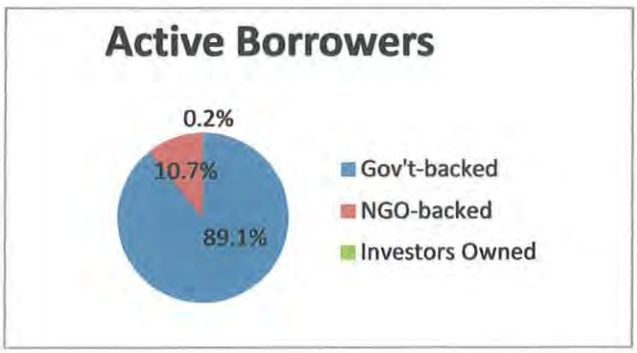
4.3 Microfinance Sector Structure in Ethiopia

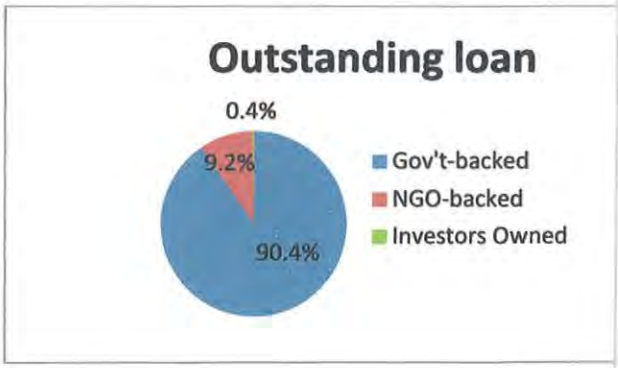
As at June 30, 2013, thirty one microfinance institutions were operating in rural, semi-urban and urban parts of the country (NBE, 2013). These MFIs can be categorized in to three based on their affiliations: Regional/Administrative government-backed, NGO-

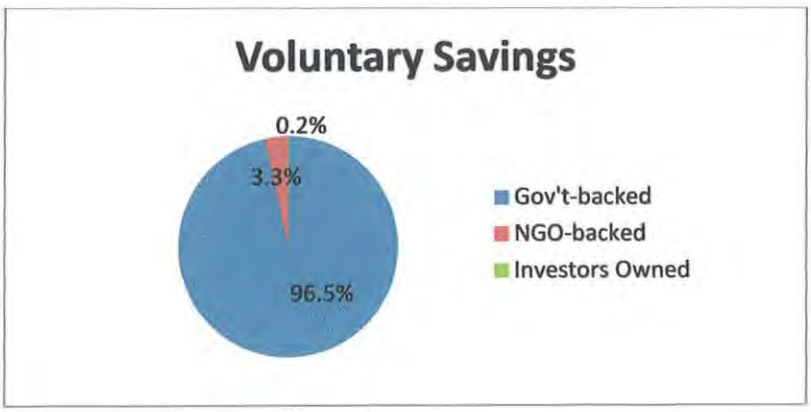
backed, and Individual investors owned. Out of thirty one operational MFIs, seventeen MFIs were affiliated from NGOs; eleven were affiliated from Regional/Administrative governments and the remaining owned by Ethiopian investors.

With regards to the market share of the sector, Regional/Administrative government-backed MFIs accounts the lion share of the market in most basic parameters such as number of credit clients (89.1%), outstanding loan (90.4%) and voluntary saving mobilized (96.5%). For details see the charts below:

Figure 4.1: Ethiopian Microfinance sector/ market structure







Source: National Bank of Ethiopia and AEMFI, 2013

4.4 Microfinance Commercialization and Performances in Ethiopia

After having the brief on the Ethiopian microfinance sector development and structure, let's examine commercialization achievements of purposefully selected (16) MFIs by using identified microfinance performance indicators. According to this study, microfinance commercialization refers to the movement towards self-sustainability through the adoptions of business-like approaches. Looking at microfinance services and MFIs on a broader level, sustainability must be a necessary condition to ensure continued availability of financial services for low-income segments of the societies. Donor funding and subsidized capital injections might be necessary in a start-up phase and for further innovations, but if an MFI is dependent on continuous basis on such irregular supports, continuity of financial services to the marginalized segments of the society become doubtful.

Commercialization in the field of microfinance is vital to expand its scale beyond the supply of capital from non-profit sources, it encourages working at market basis so as to tap the resources and provide quality services to the target groups in a sustainable basis. This can only be done if microfinance works on market terms, and not only just as a development project-as such, commercialization is very much related to product and services pricing. To be self-sufficient, i.e. independent of subsidies and donations, costs and probable risks of microfinance operations must be covered by the interest rates and fees charged on loans. Apart from covering costs, an add-on to the rates represents reasonable profit. In an increasingly competitive market, one would expect

interest rates to decline. But in a segmented market where credit is sparse, it would possible to see rates that are far above the costs of delivering financial services. Thus, commercialization and sustainability are two sides to the same story. Accordingly, the identified indicators by the study to test microfinance commercialization performances are: products and services compositions, pricing of products and services so as compensate the related costs and probable risks, profitability and sustainability, funding structure and outreach.

With regards to the country's legal frameworks about micro-financing business, all licensed MFIs are authorized to mobilize resources from the market, charge competitive and reasonable prices that is sufficient to cover all operational costs and probable risks for their products and services, apply financial discipline through strict loan recovery procedures and loan follow up, develop proper lending methodologies, reduce transaction costs and increase outreach. According to the FDRE Micro-financing Business Proclamation No 626/2009, Ethiopian Microfinance Institutions are licensed as business entity and allowed to mobilize resources from the market starting from the date of establishment and provide full packages of financial services to their target groups with the exception of dealing with international banking matters. Moreover, there is no pricing cup for the products and services with the exception of minimum deposit rate as dictated on NBE Directive No. MFI/20/2010. As per the study findings, FDRE Micro-financing Business Proclamation (626/2009) and Directives of the regulatory body have designed in a manner that fosters self-sustainability through commercialization. Hence, building sustainable microfinance service providers through

commercialization is recognized as one of the key strategies to promote sustainable and inclusive development in the country.

To this end, structured questionnaire was also distributed to the regulatory body /licensing and supervisory au.. ·rity/ senior microfinance supervision experts.

Table 4.2: Survey findings .n the promotion and supports of Microfinance commercialization with respect to the regulatory authority's perspectives.

No	Targeted points	Responses	
		Yes	No
1	License for Microfinance institution is granted just as business company to operate in a commercial basis	3/3 (three out of three respondents)	-
2	Self-sustainability is considered as one of the preconditions for granting the license	3/3 (three out of three respondents)	-

Source: Author compilation based on the primary data/responses collected

Accordingly, license for microfinance business actors is granted just as a business company to operate in a commercial basis and prospects of sustainability is considered as one of the preconditions for obtaining the license.

Furthermore, the researcher forwarded the following questionnaire to the identified microfinance sector actors and key stakeholders to explore their opinions about commercialization of microfinance to foster self-sustainability and better services to their targeted groups.

Table 4.3: Survey findings on Microfinance commercialization ultimate outcomes

Targeted Point/questionnaire	Responses				
Microfinance commercialization can foster actors' self-sustainability and better services to their target groups.	Agree	Tends to agree	Not-sure	Tends to disagree	Disagree
	73% or (11/15)	20% or (3/15)	7% or (1/15)	0%	0%

Source: Author compilation based on primary data/responses collected

According to the responses collected, majority (73%) of the respondents agree with the ultimate outcomes of microfinance commercialization such as fostering self-sustainability and better services to the target market. Besides, 20% of the respondents tend to agree on the researcher opinion. Furthermore, the researcher has collected mission statements and Vision of the participating MFIs through structured questionnaire. As per the study findings, all (100%) participating MFIs have considered sustainability as one of the key components of their mission statement along with poverty alleviation strategies.

Accordingly, both the actors and key stakeholders have positive attitudes towards the basic values of microfinance operations commercialization though there are limitations at implementations.

4.4.1 MFIs' Products and Services

Improving existing facilities and diversifying products and services enable MFIs to attract more customers and is very vital for being self-sustainable. This can be realized through the commercialization efforts of the actors and key stakeholders supports. To this end, the researcher has reviewed the existing products and services of the selected MFIs along with the legal and strategic documents associated with Micro-financing business of the country. As per the study findings, initially, Ethiopian microfinance institution mainly engaged in the provision of micro-credit to the unbanked segments of the societies through group based modality only though the legal frameworks allowed to provide full packages of financial services. Besides, Micro-financing Business Proclamation No 626/2009 (lately enacted) and Microfinance business Directives of NBE, Ethiopian MFIs are also more encouraging to provide full package of financial services to the target groups with the exception of IBS (International Banking Services) as discussed above. However, as per the study findings, currently, Ethiopian MFIs have started to provide diverse financial products and services with different modalities to their target groups in line with the stated laws and directives. This implies that Ethiopian MFIs are trying to respond to their target market demands based on the existing legal frame works.

The products and services of the selected MFIs are dictated as follows:

Loan Products: As per the responses collected from the participating MFIs, all have agricultural loan products which have been extended for those who are engaged and want to engage in agriculture and related activities. Here, agricultural loan products

includes: input loan, fatting, dairy, poultry, beekeeping and others. ACSI and OCSSCO have also package loans (food security loans). These participating MFIs have also MSEs and business loans such as trade, services, manufacturing and construction loans, though the range of the product varies. There is also consumption loan product in most MFIs. Besides, all (100%) of the participating MFIs have started to provide individual lending facilities in addition to group and village banking.

Saving Products: As per the study findings, all participating MFIs have also voluntary saving products in addition to compulsory saving products to their credit clients as part of collateral and fostering saving culture of the societies. However, the range of voluntary saving products per institution varies, most MFIs have passbook saving, time deposit, institutional savings, and demand deposit, non-interest bearing deposits facilities for both credit clients and non-credit clients.

Micro-insurance: From the participating MFIs, majority (90.0%) has provided credit life insurance to its credit clients. OCSSCO also provides livestock & health insurance. In addition to credit life insurance, AdCSI has started to provide business and property insurance for its credit clients.

Money Transfer: Only three (19%), ACSI, AdCSI and OCSSCO have started to provide local money transfer facility. Besides, ACSI, AdCSI, OCSSCO and Omo MFIs are also engaged in pension fund administration in addition to other financial services.

4.4.2 Pricing of MFIs' Products and Services

Pricing of products and services is an integral part of commercialization. Moreover, customers are more price-sensitive to certain products and services. Different products and services may have distinct costs and risks associated, so that differential pricing is one of the key determinants to win the market and ensure sustainability. Thus, understanding costs and risk differentials and recognizing customer sensitivities allows the MFI to price its products more effectively and make sound decisions on their target market.

To address the current pricing paradigms of Ethiopian MFIs, the researcher used both qualitative and quantitative data that can explore microfinance commercialization achievements, challenges and implications. Besides, the study addressed the country legal frameworks in relation to microfinance product and services pricing.

As per the study findings, there is no pricing cup for financial products and services, with the exception of minimum deposit (regular and time deposit) interest rate (NBE Directive No.MFI/20/2010). Here, the directive provides full right of financial product and service pricing for the market actors. Thus, MFIs can set their products and services price based on their cost structures, risks and competitive advantages existed in the market. Besides, as per the responses collected from the participating MFIs through structured questionnaire, majority (73%) of the responses indicated that MFIs have been applying different pricing strategies for different products and services. Of which, 62.5% has been applying different pricing strategy for their products and services based on associated costs, probable risks and reasonable margin. While 25%

set their product and services prices based on costs and risks without considering margin. In addition, 64% of the responses reveal that the prices applied on products and services are fair and competitive with respect to the target market.

Table 4.4: Survey findings of MFIs' products and services pricing determination factors.

No	Targeted Points	Responses			
1	Does your institution apply different prices for different products?	Yes		No	
		Frequency	%	Frequency	%
		8	73.0	3	27.0
1.1	Bases for price differentiation	Frequency	%		
	Costs, risk and reasonable margin	5	62.5		
	Costs and risk	2	25.0		
	Cost only	1	12.50		
2	Do you think that the prices of your product and services are fair and competitive with respect to the target market?	7	64.0	4	36.0

Source: Author compilation based on primary data/responses collected

Accordingly, majority of the participating MFIs are working towards commercialization by setting their products and services prices in a manner that compensate related costs and probable risks so as to ensure their self-sustainability. Pricing of products and services largely (62.5%) depend on the costs, risk and competitive advantages or market/margin.

4.4.3 Yield and Expenses Analysis

The study also made in-depth analysis on pricing, efficiency and credit risk exposure level by using secondary data. Here, the parameters applied for this study are: yield on loan portfolio as proxy for pricing, expenses to loan ratio as proxy to efficiency and credit risk exposure levels to see the progress on credit discipline and portfolio quality management of the participating MFIs.

Yield /financial revenue from loan portfolio is expected to be the principal income source which is also an indication of an institution's ability to cover all costs (financial, administrative and general) including impairment of loan loss. Here, yield is a proxy of financial revenue that comprises interest income from loans and related revenues such as fees, commissions and others. Yield on loan portfolio is computed by dividing total annualized financial revenues (Interest *Income*, fees & commissions and others) to average loan portfolio. It also reveals that the rate of revenue generated per unit of currency invested/lent. Here, interest income from loan mostly accounted the major share of financial revenue followed by service charges and commissions. As the profits of most Ethiopian MFIs are not distributed to the owners as dividend, pricing of their products and services based on the associated costs and risks is also supportive to increase their operational scale by reinvesting the profit gained from their businesses, and ensure self-sustainability.

Total expenses ratio is considered as a proxy of efficiency and comprises financial costs, administrative, general and impairment loan loss expenses of the MFIs, or cost per unit of currency lent. Total expenses ratio can be computed by dividing total

expenses (the sum of financial, administrative and general expenses including impairment loan loss) to average loan portfolio of the period.

Portfolio at risk greater than 90 days also counted as a proxy for credit risk exposure level of MFIs along with the progress of financial discipline in the target market and portfolio quality management of the actors.

As at June 30, 2013, the sample MFIs reported 19.0% overall yields on portfolio and 11.1% expenses ratio/ cost per unit of currency lent. However, their mean yields on portfolio and expenses ratio reached 30.4% and 36.2%, respectively. Their standard deviations stood at 18.7% and 42.3%, respectively, for details see annex tables 3&4. This indicated that there were significant variations among the participating MFIs' yield and expenses ratio. The variation was more significant in expenses ratio. This implies that the mean revenue generated from the unit of currency lent/investment was not sufficient to cover its related costs and probable risks as the MFIs were very divergent in terms of cost structure than yield, and existence of very inefficient MFIs in the sample. As of the same date, these MFIs overall reported 2.3% portfolio at risk greater than 90 days. Here, an impairment loss expense of the MFIs depends on the level of credit risk exposure.

To conduct comparative analysis with respect to yield of loan portfolio, efficiency and credit risk exposure level, the researcher categorizes the sample MFIs based on their affiliations and scale of operation/loan portfolio size. Based on the affiliation categories, the sample MFIs are categorized in to three, namely: regional/administrative city government- backed MFIs, NGO-backed MFIs and

investors' owned MFIs, while the same MFIs also categorized in to three based on the scale operations/ sizes of portfolio, namely: large, medium and small.

As per the analysis findings, as at June, 30, 2013, government-backed MFIs reported 19.0% overall yield of portfolio and 10.0% total expenses ratio/cost per unit of currency lent against that of NGO-backed MFIs (25.0% yield on portfolio &19.0% cost per unit of currency lent) and investors' owned MFIs (32.0%, yield on portfolio & 18.0% cost per unit of currency lent). Here, the mean yield, mean expenses ratio and mean PAR>90 days of the government-backed MFIs reached 17.0%, 10.5% and 3.2%, respectively. The respective standard deviations of the same indicators of the peer group stood at 2.7% (yield), 1.1% (expenses ratio) and 2.0% (PAR> 90 days).While NGO-backed MFIs reported 32.5% of mean yield on loan portfolio and 36.4% of expenses to loan ratio with their respective standard deviations of 21.8% and 44.8%, respectively. As of the same date, investors' owned MFIs' mean yield on loan portfolio and expenses to loan ratio reached 42.0%and 69.8%, respectively. And their respective standard deviations of the indicators stood at 7.5% (yield) and 38.7% (expenses to loan ratio). Hence, both NGO-backed and investors' owned MFIs' mean yield was not sufficient to cover the related costs and probable risks though their mean yields were much higher than that of gov't-backed MFIs. Besides, there were high variations within NGO-backed MFIs with respect to yields and expenses to loan ratio as compared to other groups.

From the regional/administrative government-backed MFIs, AdCSI reported a minimum average yield on loan portfolio (14.0%) and cost per unit of currency lent (9.0%), whereas ACSI reported the highest (21.1%) yield on portfolio followed by

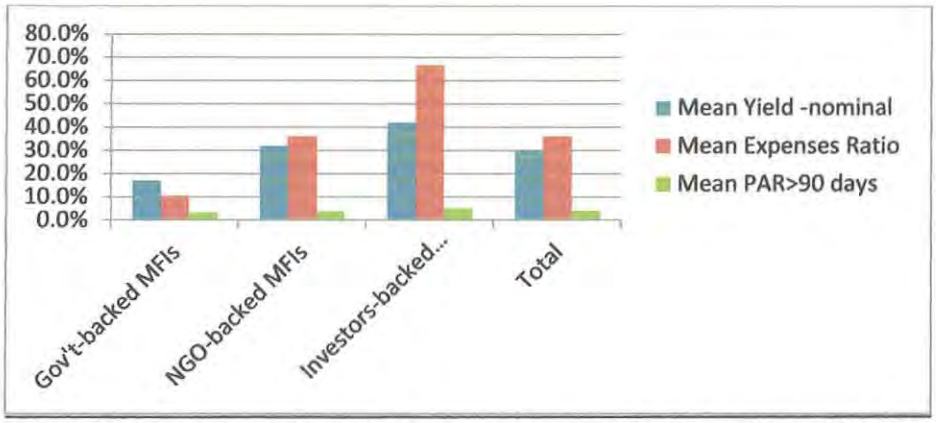
OCSSCO (18.0%). Here OCSSCO also reported the highest (12.0%) cost per unit of currency lent. With regards to credit risk exposure level, OMO MFI reported the highest (6.4%), which was concerning.

From NGO-backed MFIs, Digaf MFI reported the highest cost per unit of currency lent (162.3%), whereas Wasasa MFI reported 13.8% the lowest. Letta MFI also reported minimum yields on portfolio (17.5%) followed by Wasasa MFI (20.6%).With regards to credit risk exposure level, Harbu MFI reported the highest PAR (8.4%) followed by Digaf MFI (6.2%).

From the investors' owned MFIs, Aggar reported minimum cost per unit of currency lent (16.1%),credit risk exposure level (4.0%) and yield on loan portfolio (32.0%), whereas Lefayda Credit and saving institution reported highest cost per unit of currency lent (105.9%) and yield (49.9%). Here, dynamic MFI reported highest credit risk exposure level (6.0%). For details see annex table 3 and summarized table 4.5 below.

Table 4.5: Descriptive analysis result of yield, expenses ratio and credit risk exposure level per affiliations based categories of MFIs

Parameters/ Indicators	Gov't-backed MFIs	NGO-backed MFIs	Investors' owned MFIs	Total
Mean Yield -nominal	17.0%	32.5%	42.0%	30.4%
Mean Expenses Ratio	10.5%	36.4%	69.8%	36.2%
Mean PAR>90 days	3.2%	3.8%	5.0%	4.0%



Source: Author Computation based on secondary data/audited report of MFIs (2013)

Based on loan portfolio size categorization, the sample MFIs also classified in to three peer groups, namely: small, medium and large so as to make comparative analysis and reflect their differences among the participating MFIs. This categorization was also usually applied by AEMFI and MBB for MFIs performances comparative analysis. Here, six sample MFIs (AdCSI, ACSI, OCSSCO, OMO MFI, Wisdom MFI and Wasasa MFI) are grouped under large category which has loan portfolio sizes greater than or equal to Birr 50 million, while seven MFIs (Aggar MFI, Harbu MFI, Meklit MFI, Metamemen MFI, AVFS,Gasha MFI, Letta MFI)are grouped under medium which has loan portfolio sizes between Birr 10 to Birr 50 million and Digaf MFI, Lefayda Credit and Saving Institutions and Dynamic MFI are grouped under small which has loan portfolio size less than or equal to Birr 10 million loan portfolio.

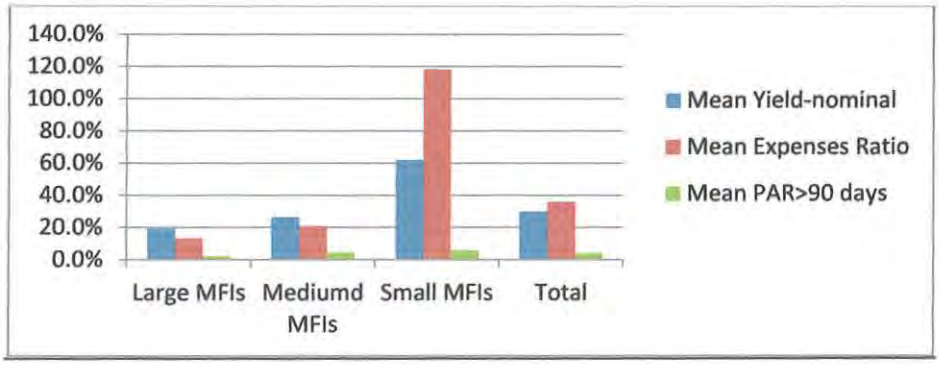
Accordingly, as at June 30, 2013, large MFIs reported the mean yield of 19.3% with respective standard deviations of 4.3% and 13.0% cost per unit of currency lent with respective standard deviations of 4.4%. While the medium MFIs reported the mean yield of 26.3% with respective standard deviations of 5.2%, and 20.8% of cost per unit

of currency lent with respective standard deviations of 5.2%. Whereas small MFIs reported the mean yield of 62.3% with the respective standard deviations of 21.7%, and 118.5% of cost per unit of currency lent with respective 31.9%. Accordingly, the mean yields of both large and medium MFIs categories are higher than that of the mean cost per unit of currency lent against that of small MFIs. However, the mean yield of small MFIs is much higher than that of the other categories along with its highest standard deviations. With regards to mean credit risk exposure level, small MFIs reported highest exposure level of 5.7% followed by medium MFIs (4.4%) and large MFIs (2.3%).

From this analysis we can conclude that pricing; expenses to loan ratio and credit risk exposure levels of the participating MFIs are largely depends the scale/sizes of loan portfolio. As the scale of loan portfolio increases the price, cost and credit risk level become lower. Accordingly, large MFIs enjoy cost advantages in comparison to small MFIs as result of operational scales, innovations and other commitments. And large MFIs have also better credit risk management than small MFIs. Besides, the participating MFIs are performing well in terms of credit risk management as the mean exposure level is below the maximum acceptable standard (5.0%). For details see annex table 4 and summarized table 4.5 and chart below.

Table 4.6: Descriptive analysis result of yield, expenses ratio and credit risk exposure level per loan portfolio size/scale based categories of MFIs.

Parameters/ Indicators	Large MFIs	Medium MFIs	Small MFIs	Total
Mean Yield-nominal	19.3%	26.3%	62.3%	30.4%
Mean Expenses Ratio	13.0%	20.8%	118.5%	36.2%
Mean PAR>90 days	2.3%	4.4%	5.7%	4.0%



Source: Authors computation based on secondary data/ audited report of MFIs

4.4.4 Profitability and Sustainability Analysis

Profitability measures the earning ability of the institution to cover financial expenses, impairment loan loss and other operating expenses, and meet the identified reasonable objectives. Sustainability refers ensuring the longevity of the institution/organization along with their respective facilities. Thus, profitability and sustainability performances of the MFIs reflect the ability to continue operating and grow in the future.

Accordingly, the researcher used the recent secondary data of the sample MFIs so as to see their performances (profitability and sustainability) in light of microfinance

commercialization achievements. Here, to make fair comparisons, the researcher made adjustments for subsidized cost of funds and inflation by taking average inter-bank borrowing rate (7.87%)[1]and yearly inflation rate (7.4%)[2] of the country. But due to data constraints, the researcher unable to conduct adjustments for in kind subsides and loan loss provisioning.

Here, adjusted return on assets (AROA) and equity (AROE) are more commercial measurements of institution's performance/profitability. The study applied these indicators to test profitability of the selected MFIs. While sustainability of the MFIs is examined by computing operational self-sufficiency and financial self-sufficiency.

To this end, from the sample of 16 participating MFIs, 50% reported positive adjusted return on assets as at June 30, 2013. Here, adjusted return on assets and equity of the sample MFIs reached 3.0%and 11.0%, respectively. However, the mean AROA and AROE of the sample MFIs stood at of -4.4% and -16.1%, respectively. Besides, the standard deviations of the variables were relative high and reached 14.5% (AROA) and 54.1% (AROE). This implies that there were variations among the participating MFIs with regards to profitability performances. For instance, Aggar MFI reported 9.0% adjusted return on assets and 36.0% adjusted return on equity, while Digaf MFI reported -42.0% adjusted return on assets, and Lefayda Credit and saving institution reported -176.0% adjusted return on equity.

With regards to sustainability, Operational Self-sufficiency (OSS) is one of the basic indicators of self-sustainability, indicating whether revenues from operations are

[1]Source: NBE (2012)
[2] Source: Central Statistical Agency (June, 2013)

sufficient to cover all related expenses including financial expenses and impairment loan loss regardless of adjustment factors. Here, OSS is computed by dividing total operating income/revenue over total operating expenses along with impairment loan loss, and needs to be $\geq$ 100%. OSS with adjustment factors called financial self-sufficiency (FSS), which measures not only an MFI's ability to cover its operating costs but also its ability to maintain the value of its equity relative to inflation and to operate and expand without subsidies. Accordingly, as June 30, 2013, 68.8% of the sample MFIs were found to be operationally self-sufficient (OSS), and of which only (56%) has secured financially-self-sufficient (FSS) position.

As at June 30, 2013, the sample MFIs reported 171.3% (OSS) and 127.0% (FSS). However, the mean of OSS and FSS of the sample MFIs stood at 126.1% and 102.3%, respectively. Here, ACSI registered outstanding performances of OSS (220.0%) followed by Aggar MFI (199.0%). With regards to FSS, Aggar also registered the remarkable performance (163.0%) followed by ACSI (150.0%). Whereas Lefayda Credit and saving institution reported very poor performance in terms of OSS (47.0%) and FSS (47.0%).Thus, the sample MFIs reported the standard deviations of 51.1% (OSS) and 34.9% (FSS). Here, though there are high divergences in the sample MFIs' sustainability performances, the majorities of the sample MFIs have already secured self-sustainability position or ensured longevity of their operations as if the supports are discontinued, and they can expand their scale of operations as a result of commercialization. For details see annex tables 5&6

To look at the differences among the sample MFIs with respect to profitability and sustainability performances and make fair comparative analysis, the researcher also

used the identified categories made based on the affiliations and sizes of the loan portfolio. According to the comparative analysis findings, all (100%) government-backed MFIs reported positive AROA and AROE, ensured self-sustainability position as at June 30, 2013. Here, ACSI registered outstanding performances in all parameters followed by OCSSCO, whereas Omo MFI reported relatively poor performances. The mean AROA, AROE, OSS and FSS of this peer group reached 2.0%, 7.5%, 166.0% and 120.0%, respectively. And their respective standard deviations stood at 2.1%, 7.3%, 37.2% and 20.6%, respectively.

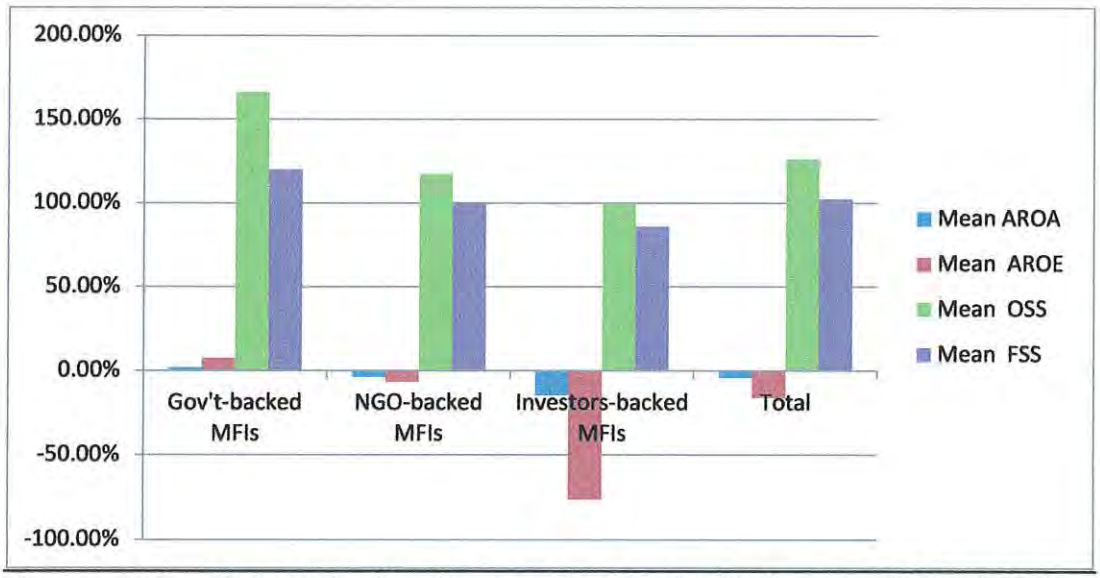
From NGO-backed MFIs, only 44% reported positive adjusted return on assets and equity, ensured self-sustainability. During the review period, this peer group overall reported 2.0% (AROA), 5.0% (AROE), 127.6% (OSS) and 109.8% (FSS). However, as of the same date, the peer group reported mean AROA (-3.6%), AROE (-6.6%), OSS (117.4%) and FSS (99.9%). And their respective standard deviations stood at 14.8 % (AROA), 29.9% (AROE), 36.8% (OSS) and 27.5% (FSS). This implies that there were significant divergences within the group in light of profitability and sustainability. For instance, Meklit MFI reported 8.0%(AROA) and 23% (AROE), whereas Digaf MFI reported -42.0% adjusted return on assets and -81.0% adjusted return on equity. Similarly, Meklit MFI reported outstanding performance of OSS (173.1%) and FSS (142.0%) whereas Digaf MFI reported very poor performances of OSS (57.0%) and FSS (54.0%).

Investors' owned MFIs overall reported positive AROA (7.9%) and AROE (30.7%). However, this peer group reported mean AROA (-14.7%), AROE (-76.3%), OSS (99.0%) and FSS (86.0%). Here, the respective standard deviations stood at 21.0%

(AROA), 106.6% (AROE), 86.6% (OSS) and 66.7% (FSS). Thus, the differences within the group were very significant as Aggar MFI reported 9.0% (AROA) and 36.0% (AROE), whereas Dynamic reported -31.0% (AROA) and Lefayda saving and credit institution reported -176.0% AROE. Besides, Lefayda reported poor (47.0%) sustainability position. For details see annex table 5 and summarized table 4.7 and chart below.

Table 4.7: Descriptive analysis results of profitability and sustainability per affiliations based categories of MFIs

Profitability & Sustainability Indicators	Gov't-backed MFIs	NGO-backed MFIs	Investors' owned MFIs	Total
Mean AROA	2.0%	-3.8%	-14.7%	-4.4%
Mean AROE	7.5%	-6.6%	-76.3%	-16.1%
Mean OSS	166.0%	117.4%	99.0%	126.1%
Mean FSS	120.0%	99.9%	86.0%	102.3%



Source: Author Computation based on secondary data/ audited reports of MFIs (2013)

Based on loan portfolio size categorization, as at June 30, 2013, large MFIs overall reported 3.0% (AROA), 11.0% (AROE), and 173.1% (OSS), and 127.6% (FSS), respectively. And, all members of the group reported positive AROA and AROE and ensured self-sustainability position. Here, ACSI registered remarkable performances whereas OMO MFI reported relatively poor performance. They also reported mean AROA (2.2%), AROE (7.7%), OSS (155.8%) and FSS (119.2%). And their respective standard deviation stood at 1.9% (AROA), 6.8% (AROE), 33.9% (OSS) and 17.9% (FSS).

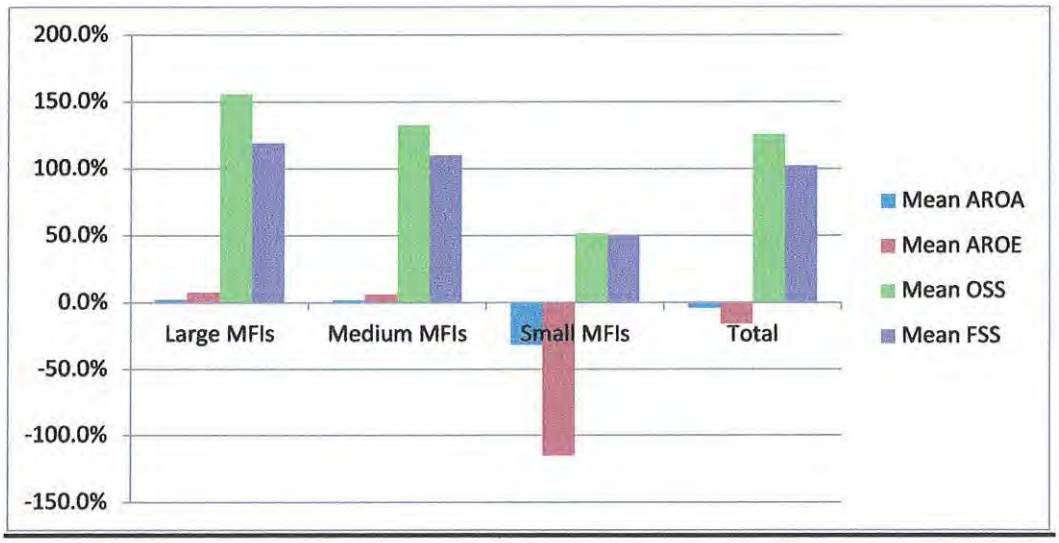
As at June 30, 2013, overall medium MFIs reported 2.0% (AROA), 6.0% (AROE), 134.1% (OSS) and 113.2% (FSS). The mean AROA, AROE, OSS and FSS reached 1.7%, 6.0%, 132.6% and 110.4%, respectively. Here, only 43% of the medium MFIs reported positive AROA and AROE, and ensured self-sustainability. The standard deviation stood at 5.3% (AORA), 17.3% (AROE), 43.2% (OSS) and 32.2% (FSS). Aggar MFI registered remarkable performances followed by Meklit MFI, whereas AVFS reported relatively poor performances from the group.

During the same period, small MFIs reported very poor performances in terms of profitability and sustainability. Here, small MFIs reported negative mean AROA (-31.9%) and AROE (-115.3%), and not ensured self- sustainability positions (51.7%, OSS and 49.7%, FSS). For details see annex table 6.

Accordingly, the size of loan portfolio affects largely affects the profitability and sustainability of MFIs. Here, the larger the size of the loan portfolio the better profitability and sustainability. For details see table 4.8 below.

Table 4.8: Descriptive analysis result of profitability and sustainability per loan portfolio sizes/scale based categories of MFIs.

Profitability & Sustainability Indicators	Large MFIs	Medium MFIs	Small MFIs	Total
Mean AROA	2.2%	1.7%	-31.9%	-4.4%
Mean AROE	7.7%	6.0%	-101.1%	-16.1%
Mean OSS	155.8%	132.6%	51.9%	126.1%
Mean FSS	119.2%	110.4%	49.7%	102.3%



Source: Author Computation based on secondary data/audited reports of MFIs (2013)

4.4.5 Funding Structure Analysis

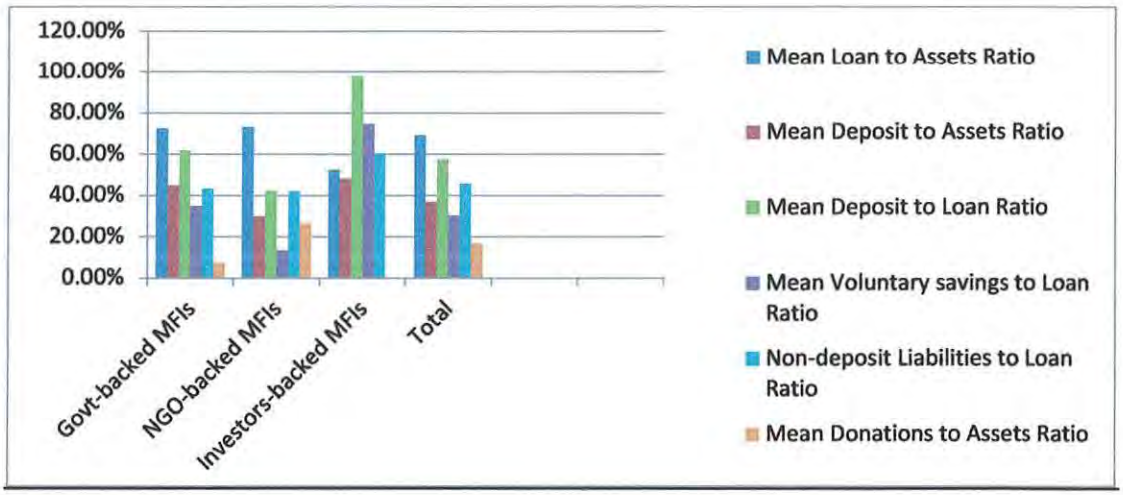
Availability of dependable sources of funds is one of the key factors for growth and sustainability of the MFIs. The fund sources of the institution shall be categorized under equity and debt. Equity comprises owners 'contributions, returns from the investment and donations from the supporters, while debt comprises deposits, commercial loans, concessionary loans, revolving funds and others.

Accordingly, Ethiopian MFIs are financing their operations through debts and or equity as mentioned above. As at June 30, 2013, the sample MFIs financed 42.7% of assets and 57.5% of loan portfolio by deposit, which is believed to be dependable and less expensive source of finance. Here, voluntary savings financed 37% of the total loan portfolio, and non-deposit liabilities (commercial loans, concessionary loans, revolving funds and others) financed 42.1% of the loan. As of the same date, the institutions financed 26.0% of the total assets and35.1% of the loan portfolio by equity. Total loan portfolio accounted 74% of the total assets. Here, as of the same period the mean deposit to assets ratio, mean deposit to loan ratio, mean voluntary saving to loan ratio, mean equity to assets and mean non-deposit liabilities to loan ratio reached 37.0%. 57.7%, 30.4%, 32.6% and 45.8%, respectively. The mean loan to assets ratio of the sample MFIs reached 69.2% and, donations on average financed only 16.8%. For details see annex tables 7&8.

From affiliations based categories, government-backed MFIs on average financed 44.8% of total assets and 61.8% of the loan portfolio by deposit against NGO-backed MFIs (29.8% of assets and 42.4% of loan) and investors 'owned MFIs (48.3% of assets and 98.0% of loan).Besides, gov't- backed MFIs financed on average 35.0% by voluntary savings against that of NGO-backed MFIs (13.6%) and investors' owned (74.4%). Here, loan portfolio accounted on average 72.5%, 73.2% and 52.7% of the total assets of Gov't-backed, NGO- backed and investors' owned MFIs, respectively. For details see table 4.9 below.

Table 4.9: Descriptive analysis results of funding compositions per affiliations based categories of MFIs

Parameters/ Indicators	Govt-backed MFIs	NGO-backed MFIs	Investors' owned MFIs	Total
Mean Loan to Assets Ratio	72.5%	73.2%	52.7%	69.2%
Mean Deposit to Assets Ratio	44.8%	29.8%	48.3%	37.0%
Mean Deposit to Loan Ratio	61.8%	42.4%	98.0%	57.7%
Mean Voluntary savings to Loan Ratio	35.0%	13.6%	74.7%	30.4%
Non-deposit Liabilities to Loan Ratio	43.3%	42.1%	60.3%	45.8%
Mean Donations to Assets Ratio	7.5%	26.6%	0.00%	16.8%



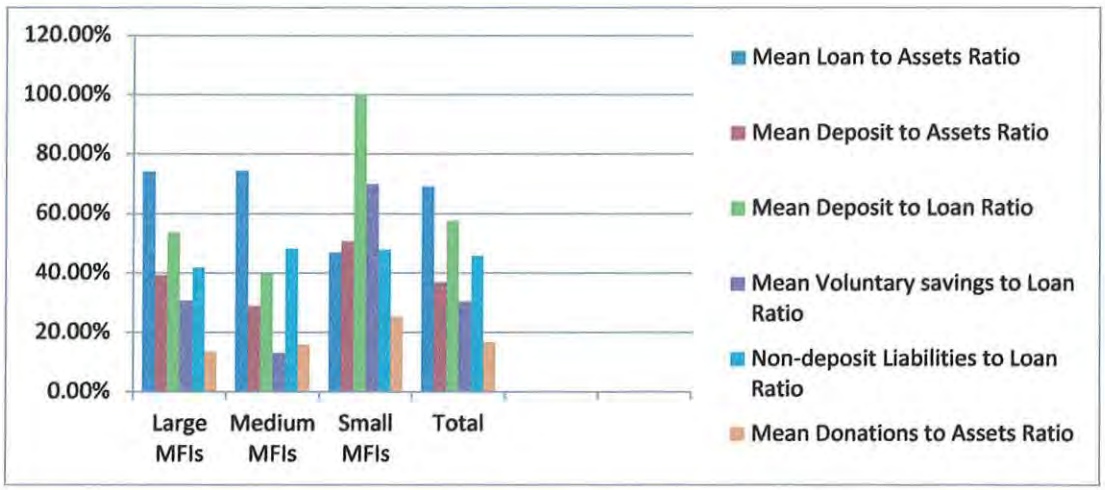
Source: Author computation based on secondary data/audited report of MFIs (2013)

From loan portfolio size categorizations, large MFIs on average financed 39.3% of the total assets and 53.7% of the loan portfolio by deposit against that of medium MFIs

(29.1% of total assets and 39.7% of loan portfolio) and small MFIs (50.7% total assets and 100%* of loan portfolio).Here, small MFIs savings against the size of loan portfolio is very high due to very low proportion of loan to assets ratio. Besides, 30.8% of large MFIs' loan portfolio is financed by voluntary savings against that of medium MFIs (13.0%) and small MFIs (70.0%). Here, large MFIs financed 75% of their total assets by liability and 25% by equity. For details see table 4.10 below.

Table 4.10: Descriptive analysis result of funding compositions per loan portfolio sizes/scale based categories of MFIs

Parameters/ Indicators	**Large MFIs**	**Medium MFIs**	**Small MFIs**	**Total**
Mean Loan to Assets Ratio	74.20%	74.40%	47.00%	69.20%
Mean Deposit to Assets Ratio	39.30%	29.10%	50.70%	37.00%
Mean Deposit to Loan Ratio	53.70%	39.70%	100%*	57.70%
Mean Voluntary savings to Loan Ratio	30.80%	13.00%	70.00%	30.40%
Non-deposit Liabilities to Loan Ratio	41.80%	48.30%	48.00%	45.80%
Mean Donations to Assets Ratio	13.50%	16.00%	25.30%	16.80%



Source: Author computation based on secondary data/audited report of MFIs (2013)

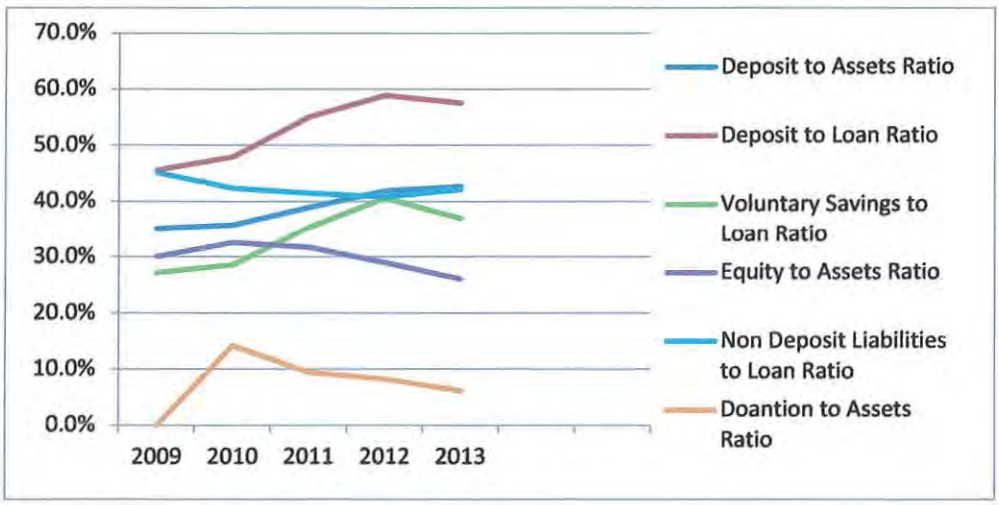
4.4.5.1 Trends of MFIs' Funding Compositions

As per the study findings, funding composition of the sample MFIs is continuously changing. As indicated in the table below, in 2009, 35.1% of total assets of the sample MFIs were financed by deposits (35.1%), non-deposit liabilities (34.8%), and equity (30.1%). In 2013, this funding compositions changed to 42.7% (deposits), 31.2% (non-deposit liabilities), and 26.1% (equity) as a result of deposit mobilization of efforts made by MFIs. During the same period, the size of loan portfolio financed by deposit also increased on average by 1.5% per year (from 45.6% to 57.5%). Here, voluntary savings financing proportion of the loan portfolio also increased from 27.2% to 37%. Whereas the proportion of assets financed by donation has shown decreasing trend since 2010. This implies that Ethiopian MFIs are working towards self-sustainability through market based funding sources such as deposits. This is encouraging and one

the success that realized from sector commercialization. For details see table 4.11 below:

Table 4.11: Trends of MFIs' funding structure

Years	Deposit to Assets Ratio	Deposit to Loan Ratio	Voluntary Savings to Loan Ratio	Equity to Assets Ratio	Non Deposit Liabilities to Loan Ratio	Donations to Assets Ratio
2009	35.1%	45.6%	27.2%	30.1%	45.2%	0.0%
2010	35.8%	48.0%	28.6%	32.6%	42.3%	14.2%
2011	39.0%	55.1%	35.4%	31.7%	41.5%	9.4%
2012	41.9%	58.9%	40.6%	29.0%	40.9%	8.2%
2013	42.7%	57.5%	37.0%	26.1%	42.1%	6.2%



Source: Author computation based on secondary data from AEMFI and MFIs

4.4.6 Outreach Analysis

Outreach implies the size and types of the clients served by microfinance institutions. Size and type refer the number and nature (mostly economic conditions) of the clients, respectively. These are also nonfinancial indicators of performance. Scale of outreach

indicate the scale of the MFI activities as measured by the number of clients served with different type of instruments such as saving and credit. Here, due to data constraint the study used only credit client to measure breadth of outreach though some MFIs have non-credit client/only saving account. Depth of outreach measures the type of clients served and their poverty level. The proxies for depth of outreach are average outstanding loan balance per GNI per capita and the percentage of women borrowers.

Ethiopian MFIs have a great opportunity to raise their scale of operations as they are legally allowed to mobilize resources from the general public starting from the date of inception/ license. Here, as we have discussed before 58% of loan extended by the sample MFIs to the target groups were financed by deposits. Thus, commercialization of MFIs has significant contribution to increase scale of outreach and ensure sustainability of the services to the targeted groups. With regards to the loan size, there is statutory maximum limit of not more than 1% and 4% of the lender's capital to the individual borrower and groups/ associations, respectively (NBE Directive No MFI/18/06). Here, the statutory requirement has set by the regulatory body inconsideration of risk absorption capacity of the lending institution's capital. Thus, the loan size of the MFIs can grow in line with their capital growth. To this end, MFIs can set sequential ladder of loan sizes per cycles and products within this statutory limit. Besides, as per the survey findings, majority (72%) of the sample MFIs have prescribed loan sizes that dictate the maximum loan size per cycles and products, not the minimum loan size. Besides, most (64%) of theses MFIs set loan sizes per products and cycles based on the statutory requirements, target groups' businesses/market, risks and costs. For details see survey table 4.12 below:

Table 4.12: Survey findings on MFIs' loan size determination factors

No	Targeted Points	Responses							
1	Does your institution has prescribed loan sizes per products and cycles?	Yes				No			
		Frequency	%			Frequency		%	
		11/11	100.0			0		0%	
1.1	If the answer is yes for Q1, does the loan size prescription dictates?	Frequency	%						
	Maximum loan size	8/11	72.7						
	Minimum loan size	0	0						
	Both	3/11	27.3						
2	The core reasons of setting and adjusting loan sizes per products and cycles.	Statutory requirement& Risks only		Statutory requirement& Costs only		Statutory requirement& target groups' businesses and market conditions only		All	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%
		1	9.1	1	9.1	2	18.2	7	63.6

Source: Author compilation based on primary data/responses collected

Besides, the study analyzed operational performance/ outreach/ of the sample MFIs based on the secondary data collected. As at June 30, 2013, the participating MFIs, number of active borrowers reached 2.6 million and loan outstanding of Birr 9.7 billion. As of the same date, the percentage of women borrowers reached 44.9% and average outstanding loan balance per GNI[3] stood at 48.5%. For details see annex tables 9&10. Here, the study also categorizes the sample MFIs based on the affiliations and scale of operation so as to compare operational performances.

From the affiliation categories, gov't-backed MFIs have serving 2.4 million active borrowers with the outstanding loan balance of Birr 9.0 billion. They accounted lion share of the sample MFIs' active borrowers (92.3%) and loan outstanding balance (92.8%). Here, 44.0% of the active borrowers were women, and average loan balance per GNI reached 48.8%. From the gov't backed MFIs, ACSI accounted the major (36.3%) share of the active borrowers followed by OCSSCO (29.9%) and OMO (24.9%). ACSI has also served more (63.0%) women borrowers followed by AdCSI (51.0%). In terms of average loan balance, OMO has small average loan balance.

During the review period, NGO-backed MFIs has accounted for only 7.4% of the total active borrowers of the sample MFIs and reported 193.7 thousand active borrowers with Birr 640 million outstanding loan balance. Form the total active borrowers that served by this peer group, percentage of women borrowers reached 53.0%, and, average outstanding loan balance also stood at 43.3%, which is smallest as compared to other peer groups. Here, from the peer group, Wasasa MFI accounted the lion (33.9%) share of the active borrowers followed by Wisdom MFI (35.2%).

[3]http://wdi.worldbank.org/table/1.1

With regards to investors' owned MFIs, Aggar MFI has served 7,119 active borrowers and accounted 93.7% of the peer group total borrowers (7,599.0). This peer group reported only 33.0% of the women borrowers, and average loan balance of Birr 6860.6, which is the highest as compared to their groups. For details see annex table-9 and summarized table 4.13 below:

Table 4.13: Outreach per affiliations based categories of MFIs

Parameters/ Indicators	Gov't-backed MFIs	NGO-backed MFIs	Investors' owned MFI	Total
Number of Active borrowers (in thousands)	2,425.8	193.7	7.6	2,627.1
% of Women borrowers	44.0%	53.0%	33.0%	45.0%
Outstanding Loan Balance (in millions of Birr)	9,037.2	640.2	52.1	9,729.5
Voluntary Savings (in millions of Birr)	3,391.8	120.2	24.1	3,536.1
Average Loan Balance (Birr)	3,725	3,304	6,860.6	3,703
Average Outstanding Loan Balance Per GNI	48.8%	43.3%	90.0%	49.0%

Source: Author computation based secondary data collected form MFIs and AEMFI

Based on loan portfolio size/scale categorization, large MFI reported 2.5million active borrowers and of which 45% were women, against that of medium MFIs (71,621.0, total active borrowers, of which 49% women) and small MFIs (915, total active borrowers, of which 60% women). In terms of average loan balance, small MFIs reported relatively small (Birr 1,342.0) average loan balance followed by medium

MFIs (Birr 3,042.0) and Large MFIs (Birr 3,723.0). For details see annex table-10 and summarized table 4.14 below:

Table 4.14: Outreach per loan portfolio size/scale based categories of MFIs

Parameters/ Indicators	Large MFIs	Medium MFIs	Small MFIs	Total
Number of Active borrowers (in thousands)	2,554.6	71.6	0.9	2,627.1
% of Women borrowers	45.0%	49.0%	60.0%	44.9%
Outstanding Loan Balance (in millions of Birr)	9,510.4	217.9	1.2	9,729.5
Voluntary Savings (in millions of Birr)	3,498.7	36.3	1.1	3,536.1
Average Loan Balance (in Birr)	3,723	3,042	1,342.1	3,703
Average Outstanding Loan Balance Per GNI	49.0%	40.0%	17.6%	48.5%

Source: Author computation from Secondary data of MFIs and AEMFI

4.4.6.1 Outreach per Sustainable and Non-sustainable MFIs

Here, comparative analysis has made between sustainable and non-sustainable MFIs with respect to outreach parameter. Accordingly, sustainable MFIs are better in terms of breadth of outreach, loan portfolio and deposit mobilization, whereas non-sustainable MFIs are relatively better in average loan balance per GNI /depth of outreach. However, lower average loan size may not guarantee a poor clientele. As an MFI matures, a lower percentage of its clients are first-time borrowers, and average loan sizes will rise even if there has been no shift in the market it is serving. Besides, as

per the primary responses collected from the participating MFIs, mostly, the prescribed loan sizes of the MFIs dictate the maximum loan size per cycles and products in line with statutory requirement (capital position), not the minimum loan size. Thus, Most MFIs have also a sequential ladder of maximum loan sizes per products for clients, but not the minimum loan size. The loan size of the MFIs can grow in line with their capital growth and target groups' market conditions. While the fractions of women borrowers in both sustainable and non-sustainable MFIs are almost the same. For details see table 4.15 below.

Table 4.15: Outreach per sustainable and non-sustainable MFIs

Parameters/Indicators	Sustainable MFIs	Non-sustainable MFIs	Total
Number of Active borrowers (in thousands)	2,587.1	40.0	2,627.1
% of Women borrowers	44.9%	45.1%	44.9%
Outstanding Loan Balance (in millions of Birr)	9,644.0	85.5	9,729.5
Voluntary Savings (in millions of Birr)	3,527.5	8.6	3,536.1
Average Loan Balance (Birr)	3,728	2,135	3,703
Average Outstanding Loan Balance Per GNI	48.8%	28.0%	48.5%

Source: Author computation from secondary data of MFIs

4.4.6.2 Outreach Trends of Sample Microfinance Institutions.

As indicated on the table below, over the last five years, the average annual growth rate of active borrowers, outstanding loan and voluntary savings of the sample MFIs reached 10.0%, 24.3% and 32.3% respectively. This implies that Ethiopian MFIs are aggressively working towards market based fund mobilization/ basically, deposit mobilization/ so as to increase their operational scales. Thus, the growth in clients' outreach and loan portfolio of the MFIs were highly dependent on market based resources mobilization efforts

Table 4.16: Outreach Trends of Participating/Sample Microfinance Institutions

Years	Number of Active Borrowers (in thousands)	Outstanding loan (in millions of Birr)	Voluntary Savings (in millions of Birr)	% Women borrower	Average Loan balance (Birr)
2009	1,669.4	3,418.8	929.6	50.0%	2,047.9
2010	1,759.7	4,046.2	1,157.3	48.5%	2,299.4
2011	1,902.3	4,865.1	1,723.0	49.8%	2,557.6
2012	2,003.4	6,805.0	2,764.4	41.1%	3,396.6
2013	2,627.1	9,729.5	3,536.1	44.9%	3,703.4
Average annual Growth rate	10.0%	24.3%	32.3%	-1.0%	13.1%

Source: Author computation based on MFIs' secondary data and AEMFI data base (2013)

4.5 Comparative Analysis through One Way ANOVA and Kurskal Wallis tests.

To test the identified hypothesis and verify whether there are significant differences between and within the peer groups, the study applied statistical packages called One Way ANOVA (parametric) and Kurskal Wallis test (non-parametric). Here, Anderson Darling, normality test was applied to test normality of the data belongs to each indicators, and natural log transformation was applied to the data which were not normally distributed. And Levens Statistics was used for homogeneity variances test. The grouping categories are affiliations and scale/sizes of loan portfolio. The identified hypothesis to test was:

H_0: $\mu_1=\mu_2=\mu_3$: the means of commercialization performance indicators of all categories of MFIs' are the same (there are no significant means differences at 5% significant level)

H_1: $\mu_1 \neq \mu_2=\mu_3$: the means of commercialization performance indicators of at least one category of MFIs is not the same (there are significant means differences at 5% significance level)

Here, the identified Microfinance commercialization performance parameters which were applied to test the hypothesis were: Yield as proxy of pricing, total expenses to loan Ratio (ELR) as proxy for efficiency, PAR>90 days as proxy for credit risk exposure level, AROA&, AROE as proxy for profitability, OSS & FSS as proxy for sustainability, deposit to assets ratio, voluntary saving to loan ratio, non-deposit

liabilities to loan ratio, loan to assets ratio, equity to assets ratio, debt to equity ratio, donations to assets ratio, loan portfolio, number of active borrowers, % women borrowers, average loan balance per GNI and Voluntary saving. These indicators were selected based on their explanatory roles of microfinance commercialization achievements, challenges and implications. One Way ANOA was applied for the data found to be normal and homogenous variances with and without natural log transformation. For the data which were not found to be normal and with heterogeneous variances even after log transformation (such as AROA, AROE, total expenses to loan ratio, FSS, loan to assets ratio and non-deposit liabilities to loan ratio) the study applied Kurskal Wallis Test.

Looking at One Way ANOVA and Kurskal Wallis test for Yield, expenses and credit risk exposure level of affiliations based categories of MFIs, the calculated p-value for yield and expenses ratio were below the level of significant for statistics (5%), but above the significance level for credit risk exposure level. Thus, there were significant differences among the means of three affiliation based peer groups in terms of yield and expenses ratio, but not for credit risk exposure level. Thus, the null hypothesis was true for only credit risk exposure level. For details see table 4.17 below:

Table 4.17: One Way ANOVA and Kurskal Wallis test result of yield, expenses ratio and credit risk exposure level per affiliations based categories of MFIs.

ANOVA							Kruskal Wallis Test		
Performance Indicators		Sum of Squares	df	Mean Square	F	Sig.	Chi-Square	df	Asymp. Sig.
LnYield	Between Groups	1.46	2	0.73	4.48	0.033			
	Within Groups	2.12	13	0.163					
	Total	3.58	15						
Total Expenses Ratio							8.724	2	0.013
Portfolio at Risk>90 days (credit risk exposure level)	Between Groups	0.001	2	0	0.55	0.59			
	Within Groups	0.006	13	0					
	Total	0.007	15						

BOLD signs reveal significant differences at 5%.
Source: Author computation based on audited secondary data of MFIs (2013)

Besides, as indicated on annex table-11, the mean difference is very significant between gov't-backed MFIs and investors' owned MFIs in terms of yield and expenses ratio.

With regards to profitability and sustainability performances, there were no significant mean differences among the three affiliations categories as calculated P-value of all profitability and sustainability indicators (AROA, AROE, OSS and FSS) were a bit

higher than that of the significance level (5%). Thus, the null hypothesis is true for all profitability and sustainability indicators. For details see table 4.18 below:

Table 4.18: One Way ANOVA and Kurskal Wallis test results of profitability and sustainability per affiliations based categories of MFIs.

ANOVA							Kruskal Wallis Test		
Profitability and Sustainability Indicators		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**	**Chi-Square**	**df**	**Asymp. Sig.**
Adjusted Return on assets							1.068	2	0.586
Adjusted Return on equity							1.792	2	0.408
Operational self-sufficiency	Between groups	0.925	2	0.462	2.005	0.174			
	Within Groups	2.997	13	0.231					
	Total	3.921	15						
Financial self-sufficiency							1.784	2	0.41

Source: Author computation based on audited secondary data of MFIs (2013)

Even though, the means differences of profitability and sustainability indicators were not significant, as identified on annex table-13, relatively government–backed MFIs were performing well in terms of profitability and sustainability followed by NGO-backed MFIs.

With respect to funding structure, the means differences were significant for Voluntary savings to loan ratio, equity to assets ratio and donations to assets ratio. Whereas the mean difference was not significant for non-deposit liabilities to loan ratio. Hence, the

null hypothesis was not true for deposit to loan ratio, equity to assets ratio and donations to assets ratio, but not for non-deposit liabilities to loan ratio. For details see table 4.19 below:

Table 4.19: One Way ANOVA and Kurskal Wallis test results of funding structure for affiliations based categories of MFIs.

ANOVA							Kruskal Wallis Test		
Performance Indicators		Sum of Squares	df	Mean Square	F	Sig.	Chi-Square	df	Asymp. Sig.
LnVoluntarysavtoloan	Between Groups	9.187	2	4.593	12.07	**0.001**			
	Within Groups	4.947	13	.381					
	Total	14.134	15						
Non-deposit liabilities to loan							0.281	2	0.869
LnEquitytoAssets	Between Groups	0.796	2	0.398	9.832	**0.003**			
	Within Groups	0.526	13	0.04					
	Total	1.321	15						
LnDonationtoassets	Between Groups	18.087	2	9.044	8.964	**0.004**			
	Within Groups	13.115	13	1.009					
	Total	31.202	15						
Bold signs reveals that the mean difference was significant at 0.05									

Source: Author computation based on audited secondary data of MFIs (2013)

With regards to outreach performances, the means differences were significant for the breadth of outreach indicators such as number of active borrowers, gross loan portfolio and amount of voluntary savings. Whereas, the mean differences were not significant for the depth of outreach indicators such as for percentage women borrowers and average loan balance per GNI. Therefore, the null hypothesis was true for the depth of outreach indicators, but not true for breadth of outreach indicators. For details see table 4.20 below.

Table 4.20: One-Way ANOVA and Kurskal Wallis test results of outreach indicators for affiliations based categories of MFIs.

ANOVA							**Kruskal Wallis Test**		
Performance indicators		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**	**Chi-Square**	**df**	**Asymp .Sig**
LnGrossloan	Between Groups	87.217	2	43.609	12.382	**0.001**			
	Within Groups	45.783	13	3.522					
	Total	133	15						
LnActiveborrower	Between Groups	80.528	2	40.264	17.948	**0.000**			
	Within Groups	29.164	13	2.243					
	Total	109.692	15						
LnVoluntarysaving	Between Groups	101.253	2	50.626	16.09	**0.000**			
	Within Groups	40.903	13	3.146					

	Total	142.155	15						
Percentage of Women borrower	Between Groups	0.038	2	0.019	0.518	0.608			
	Within Groups	0.476	13	0.037					
	Total	0.514	15						
Average loan balance per GNI	Between Groups	0.24	2	0.12	3.09	0.08			
	Within Groups	0.505	13	0.039					
	Total	0.745	15						
Bold signs reveals that the mean difference was significant at 0.05									

Source: Author computation based on audited secondary data of MFIs (2013) and AEMFI data bases (2013)

Even though, the means differences of depth of outreach indicators were not significant, as identified on annex table-13, relatively NGO-backed MFIs are performing well in terms of percentage of women borrowers and average loan balance per GNI followed by gov't-backed MFIs. Besides, gov't-backed MFIs were relatively registered better performance in terms of breadth of outreach.

Similarly, One Way ANOVA and Kurskal Wallis tests were also applied to test the hypothesis for scale or gross loan portfolio sizes based categories of MFIs. Accordingly, the means differences were significant for yield, expenses ratio, profitability (AROA & AROE) and sustainability (OSS &FSS) indicators. Therefore, the null hypothesis was not true for yield, expenses ratio, and profitability and sustainability indicators. For details see table 4.21 below.

Besides, as identified on annex table 14, the means differences were very significant between large MFIs and small MFIs as well as medium MFIs and small MFIs. Hence, financial performances of Ethiopian MFIs were largely depends on the size of loan portfolio or scale operations.

Table 4.21: One-Way ANOVA and Kurskal Wallis test results of yield, expenses ratio, profitability and sustainability per loan portfolio size based categorization of MFIs (Large, Medium and Small)

ANOVA							Kruskal Wallis Test		
Performance Indicators		Sum of Squares	df	Mean Square	F	Sig.	Chi-Square	df	Asymp. Sig.
LnYield	Between Groups	2.619	2	1.309	17.65	**0.000**			
	Within Groups	0.964	13	0.074					
	Total	3.583	15						
Total Expenses to loan ratio							10.393	2	**0.006**
Portfolio at Risk>90 days	Between Groups	0.003	2	0.001	3.871	**0.048**			
	Within Groups	0.004	13	0					
	Total	0.007	15						
Adjusted Return on Assets							7.132	2	**0.028**

Adjusted Return on equity							6.416	2	**0.04**
Operational self-sufficiency	Between Groups	2.222	2	1.111	8.499	**0.004**			
	Within Groups	1.699	13	0.131					
	Total	3.921	15						
Financial self-sufficiency							7.734	2	**0.025**

Bold signs reveal that the mean difference was significant at 0.05

Source: Author Computation based on audited secondary data of MFIs (2013)

With regards to outreach performances indicators, just as affiliations based categories, there were also means significant difference in terms breadth of outreach indicators such as number of active borrowers and voluntary saving amount. Here, as identified on annex table 15, the means differences were very significant between large MFIs and small MFIs. Whereas the means differences were not significant for the depth of outreach indicators such as percentage women borrowers and average loan balance per GNI. Therefore, null hypothesis was true only for the depth of outreach indicators. However, as identified on annex table 16, small MFIs were performing well in terms of

serving more women borrowers and medium MFIs were good in average loan balance per GNI. This implies that relatively small MFIs are serving more poor than others.

Table 4.22: One-Way ANOVA and Kurskal Wallis test results of outreach for loan portfolio size categories of MFIs (Large, Medium and Small)

ANOVA							Kruskal Wallis Test		
		Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**	**Chi-Square**	**df**	**Asymp. Sig.**
LnActiveborrower	Between Groups	98.99	2	49.495	60.128	**0.000**			
	Within Groups	10.701	13	0.823					
	Total	109.692	15						
LnVoluntarysaving	Between Groups	122.02	2	61.01	39.389	**0.000**			
	Within Groups	20.136	13	1.549					
	Total	142.155	15						
Percentage of Women borrower	Between Groups	0.05	2	0.025	0.703	0.513			
	Within Groups	0.464	13	0.036					
	Total	0.514	15						
Average loan balance per GNI	Between Groups	0.023	2	0.011	0.207	0.816			
	Within Groups	0.722	13	0.056					
	Total	0.745	15						

Source: Author computation based on secondary data of sample MFIs (2013) and AEMFI (2013)

4.6 Pearson's Correlations Coefficients of Key Microfinance Institution's Performance indicators

To see the interrelationships among key financial and operational performances indicators, the study used Pearson's correlation matrix. Here, special attention was given to sustainability and outreach indicators that can help to explore the ultimate effects of microfinance commercialization. As indicated on table 4.23, sustainability indicator (OSS) of the MFIs is positively associated with age; breadth of outreach, scale/size of loan portfolio and amount of voluntary savings mobilized, but negatively associated with credit risk exposure level. Besides, voluntary saving; number of active borrowers (breadth of outreach), scale of operation and age are also positively correlated. However, as per the correlation analysis findings of the study, the association between sustainability indicator (OSS) and depth of outreach indicators (percentage of women borrowers and average loan balance per GNI) is not significant. Though it is not significant, there is positive association between OSS and average loan balance per GNI that seems suffering from "mission drift." But, low account sizes and high percentage of women may not guarantee a poor clientele. Likewise, growth in average loan size does not necessarily mean that an MFI is suffering from mission drift. Most MFIs have also a sequential ladder of maximum loan sizes per products for clients, but not the minimum loan size. As an MFI matures, a lower percentage of its clients are first-time borrowers, and average loan sizes will rise even if there has been no shift in the market it is serving. Besides, as per the responses collected from the participating MFIs, mostly, the prescribed loan sizes of the sample MFIs dictate the

maximum loan size per cycles and products in line with statutory requirement, not the minimum loan size. Thus, the study finding supports Hishigsuren (2007) and, Christen (2001) findings about mission draft as a result of commercialization as the average loan balance growth is affected by different factors.

Table 4.23: Pearson's Correlation Coefficients of MFIs' sustainability and outreach indicators

Correlations									
Particulars/indicators		**Operational self-sufficiency**	**Percentage of Women borrower**	**Average loan balance per GNI**	**Portfolio at Risk>90 days**	**LnGrossloan**	**LnVoluntarysaving**	**LnActive borrower**	**Lnage**
Operational self-sufficiency	Pearson Correlation	1							
Percentage of Women borrower	Pearson Correlation	-.131	1						
Average loan balance per GNI	Pearson Correlation	.474	-.348	1					
Portfolio at Risk>90 days	Pearson Correlation	**-.574***	-.233	-.229	1				
LnGrossloan	Pearson Correlation	**.787****	-.267	.238	**-.504***	1			
LnVoluntarysaving	Pearson Correlation	**.659****	-.284	.340	-.426	**.928****	1		

LnActiveborrower	Pearson Correlation	.722**	-.177	.114	-.467	.983**	.916**	1	
Lnage	Pearson Correlation	.594*	-.071	-.001	-.501*	.789**	.631**	.811**	1
*. Correlation is significant at the 0.05 level.									
**. Correlation is significant at the 0.01 level									

Source: Author computation based on secondary data of participating MFIs (2013)

4.7 Microfinance Commercialization Implications

As dictated on the literature review part of this study, microfinance operations commercialization may have positive and negative implications. Accordingly, the study has looked at some of the basic microfinance commercialization implications throughout the discussions and analysis of the study. Thus, the identified Microfinance commercialization implications are summarized in the table 4.24 below.

Table 4.24: Study findings of Microfinance commercialization implications

Particulars targeted	Commercialized Micro-financing business	Non/Less commercialized Microfinance Services.	Reflections in line with the study findings
Product and services mix	Diversified demand-driven products and services	Limited products and services	Commercialized MFIs works towards their target market or more sensitive to the target groups' reactions.
Yield and efficiency	Lower yield and more efficient	Higher yield and less efficient	Commercialized MFIs have managed to become self-sufficient by cutting costs not by increasing prices, and better opportunities for innovations and technologies.
Profitability and sustainability	More for-profit and self-sustainability	Less for profit and self-sustainability	As sustainability is one of the key strategies of commercialized MFIs, they exert more efforts to become self-sustainable.
Credit risk exposure level	Low	High	Commercialized MFIs have lower credit exposure level than non-commercialized, or promotes better

			credit and financial discipline in the sector.
Number of borrowers	Larger number of borrowers	Less number of borrowers	Commercialized MFIs have larger breadth as a result of better resource mobilization options and customer preferences for sustainable service provider.
Average loan balance per GNI	Larger average loan balance	Relatively smaller average loan balance	As only maximum loan sizes per products and cycles were established at most MFIs, not the minimum size, larger loan size may not reflect mission drift. Besides, loan size can grow due to different factors such as MFI's capital position/MFI's maturity level; target groups' business and market conditions and others.
% of women borrowers	Moderate fraction of women borrowers	Moderate fraction of women borrowers	Commercialization may not lead to mission drift as the fraction of women borrowers at both commercialized and non-commercialized MFIs were almost the same.
Deposit/resource mobilization	Large portion of loan financed by deposit	Smaller portion of loan financed by deposit	Aggressive market based resource mobilization strategies and efforts of commercialized MFIs

Source: Author findings throughout discussions and analysis of the study.

4.8 Challenges of Microfinance Commercialization and Sustainability in Ethiopia

Before exploring the challenges of microfinance commercialization, it is better having understanding about the challenges of actor's sustainability as the core values mainly associated with promoting self-sustainability while serving the target groups.

4.8.1 Challenges of Ethiopian Microfinance Institutions' Sustainability

To foster sustainable development in a country, the related tools are required to be viable and sustainable. The longevity of the finical services providers is very critical to mobilize resources from the surplus segments to deficit segments so as to foster productions/ investments. Here, microfinance institutions as one of the key tools to boost up country's economic growth, they need to be sustainable to ensure the longevity of their services. To look at sustainability challenges for Ethiopian MFIs, the researcher distributed structured questionnaire to selected MFIs' management, licensing and regulatory authority's senior experts, and AEMFI's senior experts in order to rank the identified challenges in light of the severity order and indicate any more not identified by the researcher. The responses collected from the respondents are also ranked based on their relative weight. Thus, the rank of the sustainability challenges per respondent's category is tabulated as follows:

Table 4.25: Survey findings of MFIs' sustainability Challenges in Ethiopia

Identified MFIs Sustainability Challenges	Challenges Rank per Respondent's Category		
	MFI-Practitioners	Regulator Authority-Experts	AEMFI
Shortage of loanable fund	1	3	1
Governance and leadership related problems	2	1	2
Institutional bases (ownership)	4	2	3
Poor MIS and related infrastructure	3	3	4
Limited institutional capacity and inefficiency	3	4	4

Source: Author compilation based on primary data/responses collected

As per the study findings, shortage of loanable fund, and governance and leadership related problems are very serve bottlenecks for MFIs' sustainability in Ethiopia, respectively. Shortage of fund for on-lending purposes is found to be a sever challenge for sustainability of the MFIs as per practitioners view and persistent one, unless due emphasis is given for market based fund sources. As discussed earlier, the identified fund sources of Ethiopian MFIs are: deposits, concessionary and commercial loans, equity. As the legal frameworks of the country recognize Microfinance institutions as a formal financial system and subjected to regulation, Ethiopian MFIs can mobilize the resources from the public at large to finance their on-lending operations. However, due to various reasons such as weak institutional capacity, inefficiency, and others, most of

MFIs are not successful in mobilizing market based funds and still dependent on irregular donations/subsides regardless of the date of entry.

As discussed earlier, Ethiopian MFIs are categorized in to three genetic peer groups, namely, government-backed, NGO-backed and investors-backed. This ownership category has an impact on the effectiveness of governance issues like directing and closely overseeing the institution's performances. Sound governance is fundamental in creating efficient and sustainable microfinance institutions. Thus, weak governance associated with poor leadership lead to poor performances and sustainability problems at MFIs. As per the regulatory body experts' responses, governance and leadership related problems, and foundations of the MFIs are counted as the key sever challenges to Ethiopian MFIs sustainability.

Poor management information system along with weak institutional capacity have also identified as a factors that negatively affects the sustainability of Ethiopian MFIs. As the quality of information largely affects conclusions and decisions, microfinance institution's management information system need to be strengthened, unless it is very difficult to know the actual positions of the institution.

4.8.2 Challenges of Microfinance Commercialization in Ethiopia

As sustainability and commercialization are two sides of the same story – the realization that if the field of microfinance is to expand its scale beyond the supply of capital from non-profit sources, it must begin to tap the market-based fund sources and adopt business like approaches so as to provide better services to its target groups in a sustainable manner. Here, commercialized MFIs are expected to adopt business-like

approaches to MFI administration and operations, such as developing diversified, demand-driven microfinance products and services, use of market based fund sources and applying the interest rate and fees that can re-recovery costs and probable risks. This in turn promotes self-sustainability of MFIs. However, there are bottlenecks for Microfinance commercialization starting from awareness.

Based on literatures the researcher identified commercialization challenges and forwarded the same to the respondents to rank the identified challenges in light of the severity order and indicate any more not identified by the researcher. Here, their responses are also ranked based on their relative weight. The responses per the respondent's category are summarized on table 4.26 below.

Table 4.26: Survey findings of microfinance commercialization challenges in Ethiopia

Identified MF Commercialization Challenges	Challenges Rank per Respondents' Category		
	MFI-Practitioners	Regulatory Authority-Experts	AEMFI
Having negative perceptions about MFI's commercialization	1	1	1
Institutional basis (ownership, mission....)	2	2	2
Weak institutional capacity and limited use of existing technology	3	4	3
In adequate leadership and management skills	4	3	4
Underdeveloped financial system and market	6	5	5
Underdeveloped prudential regulation	7	6	6

and supervision			
Lack of adequate supports and responsible institutions	5	7	5

Source: Author compilation based on primary data/responses collected

According to the survey result, negative perceptions pose the biggest challenge to microfinance commercialization as per the responses of all categories of the respondents. While most of the MFIs are beginning to see the importance of becoming self-sustainable, many are concerned that microfinance commercialization would neglect the needs of the "ultra poor" and other populations groups just below the poverty line. Along the ongoing pressure on MFIs to become financially sustainable, concerns have been expressed regarding whether or not the original aim of microfinance actually can be reconciled with financial objectives. Some claim that there is a trade-off between the two circumstances and that focus on financial performance leads to a mission drift in which the poor are the losers as the MFIs start targeting more profitable clients and leave the poor neglected. Mission drift may be observed through looking at the MFIs outreach to clients. However, in order to ensure the longevity and access to the financial services to the unbanked segment of the societies to bring sustainable impacts in their livelihoods, the MFIs are required to be self-sustainable through commercialization.

Foundations basis or ownership of the MFI also ranked as a second constraint for microfinance commercialization next to negative perceptions. Although many of the MFIs in Ethiopia are established as share companies and business entity, in most cases profit was not be distributed to shareholders as dividends. Here, the entire

earnings were utilized for the benefit of the target groups i.e. the poor. As most of the shareholders of Ethiopian MFIs are not real owners, the supports from these nominal shareholders towards self-sustainability through commercialization are questionable or not as expected. Besides, this nominal ownership structure has brought governance problems in the sector. Likewise, microfinance operations commercialization efforts have been deterred by inherited factors or foundation blocks though the country's legal framework encourages being self-sustainable through commercialization.

Weak institutional capacity and limited use of existing technology also identified as a sever challenges for microfinance commercialization by the practitioners. Due to limited capacity, most Ethiopian MFIs are not using technologies such as mobile banking, other payment systems and others for day to day operations rather than doing manually. As a result, their efficiency is negatively affected and that also leads to poor performances and customer dissatisfaction. Besides, getting reliable and up-to-date information for decision making is also doubtful.

As per the regulator's perspective, poor/inadequate leadership and management skills ranked as the third sever challenge for microfinance commercialization in Ethiopia. As the sector is not matured enough, getting and retaining skilled manpower who can effectively manage such sensitive business seem to be difficult. Hence, the sector is also suffering from high staff turnover due to dynamisms in the financial sector of the country.

Underdeveloped financial system and market of the country also counted as the fifth sever challenge for microfinance commercialization. Here, financial system comprises a set of financial intermediaries, financial market and financial assets. This also implies a set of complex and closely connected or interlined institutions, markets, agents, claims and liabilities in the economy. This system allows or accelerates the transfer of financial resources from surplus to deficit areas/segments for enhancing productivity of the economy. To this end, financial system and related market of the country are not well developed so as to accelerate the growth and development of the country as expected. This financial infrastructures and actors are also very essential for microfinance commercialization.

Besides, underdeveloped prudential regulations and lack of adequate support institutions are also counted as bottlenecks for microfinance sector commercialization of the country. The prudential regulations of the country and microfinance support institutions need to understand the sector dynamisms, and work to foster growth and sustainability in the sector. Regulatory body need to give more emphasis on healthy and soundness of the sector while the support organizations are required to work for strengthening the capacity of the sector in terms of manpower and other relevant supports.

Chapter Five

Conclusions and Recommendations

Based on the analysis conducted on chapter four, the following conclusions and recommendations were made in light of commercialization performances of microfinance institutions, basically achievements, challenges and implications.

5.1 Conclusions

In addition to their social mission, microfinance institutions need to be self-sustainable through commercializing their operations and administrations so as to ensure the longevity of their commendable facilities/ financial services to the excluded segments of the societies.

In this regards, the study reviewed literatures on microfinance commercialization core values that can explore achievement, implications and related challenges. Thus, the identified indicators for commercialization performances of MFIs are: mixes of products and services, pricing of products and services/yield/, efficiency/expenses ratio/, profitability and sustainability, funding bases and outreach.

Accordingly, both secondary and primary data (obtained from questionnaire distributed to representative sample MFIs) have been used in the study. In the analysis process, the study has adopted descriptive, trend and comparative analysis techniques. Here, to conduct in-depth comparative analysis on different categories of MFIs, the study applied statistical packages/models such as One Way ANOVA (parametric) and

Kurskal Wallis test (non-parametric), and Pearson's correlation coefficient so as to answer the research objectives. Besides, the study has reviewed the county's legal frameworks with regards to microfinance commercialization along with researcher observations.

Accordingly, the findings of the study are summarized as follows:

Over the last eight years, Ethiopian MFIs registered remarkable progress in terms of outreach, profitability and sustainability. They registered annual average growth of 23.0% (active number of borrowers), 32.0% (loan outstanding), 37.0% (voluntary saving mobilized), 0.4% (ROA) and 3.6% (operational self-sufficiency) though there are variations within MFIs. The sector is also highly dominated by gov't-backed MFIs with all aspects.

With regards to the country's legal frameworks in light of microfinance commercialization, Micro-financing Business Proclamation no.626/2009 and NBE Directives have been designed in a manner that promotes the sector healthy and sustainability through the adoption of business-like approaches. License for MF business is also granted just as a business entity that was established in the form of Share Company in considerations of the prospects of sustainability. The legal frame works also allows MFIs to mobilize the resources from the general public starting from the date of inception and provide full packages of financial services to their target groups, with the exception of international banking matters. Though the incentives are not enough to encourage private investors to invest in the sector just as other priority sectors, there is also a profit tax incentive for those who are not distributing dividends

to the owners and wants to use the investment returns to scale-up its operation/expansions.

As per the survey findings, majority of the respondents (participating MFIs and key stakeholders) have supportive opinions about the basic values of microfinance commercialization though there are limitations at the implementation. Here, at least they tend to agree that microfinance commercialization can foster actors' self-sustainability and better services to their target groups

With regards to mix of financial products and services, however, MFIs used to provide limited products and service, currently, they have started to provide diverse financial products and services with different modalities to their target groups in line with Micro-financing Business Proclamation No. 626/2009 and NBE Directives. Here, the legal frameworks also allow MFIs to provide full packages of financial services to their target groups, with the exception of IBS (International Banking services). Overall, the progress of Ethiopian MFIs in this regard is said to be good, and they are working to respond to their target market demands based on the existing legal frame works.

From product and services pricing point of view, as per the study findings, majority of the participating MFIs are applying different pricing for different products based on costs, probable risks and competitive advantages of the target market. The study findings also reveal that the prices set for the products and services are believed to be fair and competitive with respect to target market and macro-economic conditions of the country. Moreover, there is no legally stipulated pricing cup for financial products and services, except minimum deposit interest. Likewise as stipulated on Directive No

MFI/20/2010, pricing of financial product and service is believed to be fully dependent on the market.

With regards to yield, efficiency and credit risk exposure level, overall, though, the sample MFIs yield on portfolio (revenue generated per unit of currency lent) is sufficient to cover the overall expenses to loan ratio (cost per unit of currency lent), the mean yield is not enough to cover the associated costs and probable risks as there are more divergences among the MFIs financial revenues and cost structures. Here, the study categorized the participating MFIs based on affiliations and loan portfolio size so as to look at the means differences and made relatively fair comparisons. Hence, the findings are dictated as follows:

From affiliations based categories, gov't- backed MFIs reported the least mean yield and mean expenses ratio. Besides, the respective yield is sufficient to cover the costs and probable risks due to better efficiency registered through their better scale of operations, gov't commitments, lower credit risk exposure levels and other subjective reasons. Here, the mean deviations are found to be minimal. Whereas, NGO-backed MFIs reported much higher mean yield and expenses ratio than gov't-backed MFIs, but their mean yield is not sufficient to cover the related costs and risks as a result of higher costs per unit currency lent. Here, the mean deviations are also the highest as compared to other categories. Investors' owned MFIs, the mean yield and expenses ratios are also the highest as compared to other two categories, but the mean yield is not sufficient to cover the related costs and probable risks. With regards to credit risk exposure levels, all categories reported acceptable level, though investors' owned reported the highest.

From scale/size of loan portfolio based categories, large MFIs reported the least mean yield but sufficient to cover the related costs and probable risks as a result of the operational scale advantages and other factors. Here, the mean deviations are also minimal. Similarly, medium MFIs reported the mean yield that is sufficient to cover the related costs and probable risks though higher than large MFIs. Even though, the mean yield is not sufficient to cover the associated costs and risks, small MFIs reported the highest mean yield and expenses ratio. There is also highest mean deviation in the peer groups.

According to One Way ANOVA and Kurskal wallis test comparison result, the means differences of yield and expenses ratios among all identified categories (affiliations and loan portfolio size based categories) of MFIs were significant at 5% significance level.

With regards to profitability and sustainability performances, overall the sample MFIs reported positive AROA and AROE with better OSS and FSS, but the means AROA and AROE are still negative. Here, the means deviations of profitability and sustainability indicators were found to be large. The findings about profitability and sustainability of different categories of MFIs were dictated as follows:

From affiliations based categories, only gov't-backed MFIs reported positive and the highest mean AROA and AROE. In terms of sustainability, on average, gov't-backed MFIs have secured operational and financial self-sufficient position. Here, the mean deviations were also relatively low. On average, NGO-backed MFIs seem to be operationally self-sufficient, but not financially self-sufficient. While investors' owned

MFIs on average reported very poor profitability and sustainability performances against others, and the mean deviations were also very high.

From scale/size of loan portfolio categories, large MFIs reported positive mean AROA and AROE with better sustainability indicators (OSS and FSS). Here, the mean deviations were also relatively low. Besides, the medium MFIs also reported positive mean AROA and AROE and on average they secured sustainability position. Whereas, small MFIs reported the worst profitability and sustainability positions.

Thus, profitability and sustainability of MFIs were largely depends on the scale/size of loan portfolio that need to be the core productive investment venture of most financial institutions.

According to One Way ANOVA and Kurskal Wallis test comparison result, the means differences of profitability and sustainability performances of affiliations based categories of MFIs were not significant at 5% significance level. However, the means differences of profitability and sustainability performances of scale/loan portfolio size based categories were significant at the same significance level. Here, large MFIs reported better performances followed by medium MFIs.

With respect to funding structure, during the review period, overall the sample MFIs financed 47.2% of the total assets and 57.5% of the loan portfolio by deposits. Here, non-deposit liabilities (concessionary loans, commercial loans and others) financed 42.1% of the total loan portfolio. The average deposit to assets ratio, deposit to loan ratio and non-deposit liabilities to loan ratio reached 37.7%, 57.5% and 45.8%, respectively. There are also dynamisms in funding structure as MFIs moved to market-

based findings. Here, though saving mobilization efforts of the MFIs were not as expected, the proportion of loan portfolio financed by voluntary savings increased from 27.7% to 37.0% over the last five years. But the total assets financed by donations revealed decreasing trends. From the affiliation based categories, though the size of loan portfolio is minimal, investors' owned MFIs financed loan portfolio mostly by deposits. Here, gov't-backed MFIs also registered progressive performance in terms of deposit mobilization. Whereas NGO-backed MFIs have reported poor performances in terms of voluntary saving mobilization. Here, the means differences were significant for voluntary savings to loan ratio, equity to assets ratio and donations to assets ratio according to One Way ANOVA and Kurskal wallis test result comparisons. Among loan portfolio size based categories, small MFIs financed the highest portion of loan by savings though the proportion of loan to assets ratio is very low. Here, Large MFIs have reported progressive performance with respect to deposits mobilization. Besides, according to One Way ANOVA and Kurskal wallis test comparisons, the means differences of voluntary saving to loan ratio of these categories were significant at 5% significance level.

With regards outreach performance, overall the number active borrowers of the sample MFIs on average increased by 10% annually and reached 2.6 million. Of which 92.3% has been served by gov't-backed MFIs and 7.3% has been served by NGO-backed MFIs. Here, investors' owned MFIs has accounted for only 0.4%. Similarly, large MFIs have served 97.2% of the sample MFIs' active borrowers while medium and small MFIs together have served only 2.8%. Furthermore, 98.5% of the active borrowers have been served by operationally self-sufficient MFIs, whereas only 1.5%

has been served by operationally non-self-sufficient sample MFIs. Besides, according to One Way ANOVA and Kurskal Wallis test comparisons, the means differences of breadth of outreach indicators (number of borrowers, loan outstanding balance and amount of voluntary savings) were significant at 5% significance level.

With respect to depth of outreach, percentage of women borrowers that have been served by the sample MFIs reached 44.9%. From the affiliation categories, NGO-backed MFIs have more fractions of women borrowers followed by gov't-backed MFIs. Similarly, from loan portfolio size categories, though the size of borrowers that have been served by small MFIs was small, this peer group has more fractions of women borrowers followed by medium MFIs. However, the fractions of women borrowers are almost the same in both sustainable and non-sustainable MFIs. Besides, NGO-backed MFIs have also better performance since they have smallest average loan balance per GNI followed by gov't-backed MFIs. However, investors' owned MFIs reported the highest average loan balance per GNI. Similarly, small MFIs reported the smallest average loan balance per GNI followed by medium MFIs. Besides, the average loan balance per GNI at non-sustainable MFIs is less than that of sustainable MFIs. Thus, though loan size can grow due to different factors, NGO-backed MFIs from affiliation categories, small MFIs from loan portfolio size categories and non-sustainable MFIs were relatively seem to be more poverty oriented than others. However, according to One Way ANOVA and Kurskal Wallis test comparisons result, the means differences of the depth of outreach indicators (% of women borrowers and average loan balance per GNI) were not significant within and between all identified categories (affiliations and scale/loan portfolio based categories) of MFIs. As, mostly

MFIs set sequential maximum loan sizes per products and cycles not the minimum, small loan size and high percentage of women may not guarantee a poor clientele. Likewise, growth in average loan size does not necessarily mean that an MFI is suffering from mission drift. As an MFI matures, a lower percentage of its clients are first-time borrowers, and average loan sizes will rise even if there has been no shift in the market it is serving. Besides, as per the country's statutory requirement, the loan size of the Ethiopian MFIs can grow in line with their capital growth. Hence, MFIs can set sequential ladder of loan sizes per cycles and products within this statutory limit. Besides, as per the responses collected from the participating MFIs, mostly, the prescribed loan sizes of the MFIs dictate the maximum loan size per cycles and products, not the minimum loan size.

According to Pearson's correlations coefficient analysis findings, OSS (sustainability indicator) has significant positive association with MFI's age; breadth of outreach, scale/size of loan portfolio, amount of voluntary savings mobilized and average loan balance per GNI, but negatively associated with credit risk exposure level. Besides, voluntary saving/market based funding; number of active borrowers (breadth of outreach), scale of operation and age are also positively correlated. As per the simple correlation analysis findings, the association between percentage of women borrowers and operational self-sufficiency is not significant.

In general, as per the study findings, microfinance commercialization can foster higher scale of operations, better product and services mixes, lower yield, efficiency, profitability and sustainability, better risk management and better market based resource mobilization and utilization. Better commercialized MFIs have also relatively

higher average loan balance per GNI than less-commercialized MFIs though the increase in loan size is due to different factors such as maturity of the MFIs, client preferences and others. But the means difference of women borrowers and average loan balance were not significant.

With regards to microfinance commercialization and sustainability challenges, the study has identified some sever challenges. Here, shortage of loanable fund, is one of the most sever challenges of microfinance institutions' sustainability in Ethiopia followed by governance and leadership related problems, institutional basis, and poor MIS and related infrastructures. While, having negative perceptions is one of the most sever challenges of microfinance commercialization in Ethiopia followed by institutional basis/ownership, weak institutional capacity and limited use of existing technology, and inadequate leadership and management skills.

Overall, even though most MFIs were doing well in terms of commercialization achievements such as product mix, efficiency, credit risk management, profitability and sustainability, and outreach some MFI groups are still lagging due to various internal and external factors as we discussed before.

5.2 Recommendations

- The lagging MFIs from any categories should look at their cost structures and workout to increase the scale of operations through commercialization so as to be efficient and sustainable. Here, basically, small and midsized MFIs shall go for massive scaling up strategies as size has a clear impact on profitability and sustainability.

- MFIs should also give due attention to market-based fund sources, which is believed to be dependable and less volatile sources of fund to finance their loan operations. Besides, more emphasis should also be given for resources allocations towards more productive investments in line with their mission statement. Here, it is advisable to allocate much more resources on loan portfolio than other assets such as current assets or fixed assets.
- To overcome the core challenges of microfinance commercialization and sustainability, the actors, government and other stakeholders need to further promote the industry as a business opportunity in addition to poverty alleviation tool. Here, consistent awareness creations, technical assistances and capacity building programs are needed.
- Besides, to foster longevity of the financial services and scale up the outreach by strengthening commercialization of MFIs through the adoption of business-like approaches, government and other stakeholders need to further improve the microfinance operation environments in which MFIs are operating by strengthening financial infrastructures, strengthening management information support systems and networks, risk management and strengthening the capacity of regulatory authority.

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Annex table 1: Definitions of indicators /parameters used in the study

No	Indicators	Definitions
1	Yield	Total financial revenue to average loan outstanding
2	Expenses to average loans ratio	Total expenses (operating costs, financial expenses and loan loss provisions) to average loan
3	Financial Self-Sufficiency (FSS)	adjusted operating income/sum of adjusted operating costs, financial costs and impairment loan loss provisions
4	Operational self-sufficiency (OSS)	Operating income / sum of operating costs, financial expenses and loan loss provisions
5	Adjusted Return on asset	Adjusted net operating income / average total asset
6	Adjusted return on equity	Adjusted net operating income to average equity
7	Breadth of outreach	Number of active clients
8	Average loan balance	Loan outstanding /number of active borrower
9	A average loan balance per GNI	Average loan balance to GNI
10	% of Women clients	Number of women clients/ total active clients
11	Portfolio at risk>90 days	Total principal loan > 90 days past due/total outstanding loan portfolio
13	Donation to assets	Donation to total assets ratio
14	Savings to loan	Saving to loan ratio
15	Non-deposit liabilities to loan portfolio ratio	Non-deposit liabilities (Commercial loans, concessionary loans and other liabilities) to loan
16	Scale	Scale measured by volume of loan portfolio
17	Age	Age of the institution in number of year
18	LnGrossloan	Log transformed Gross loan portfolio
19	LnActiveborrower	Log transformed Active borrower
20	LnVoluntarysaving	Log transformed Voluntary saving
21	LnYield	Log transformed Yield
22	LnVolunatrysavtoloan	Log transformed Voluntary saving to loan ratio
23	LnEquitytoAssets	Log transformed Equity to assets ratio
24	LnDonationtoassets	Log transformed Donations to assets ratio

Annex 2 (a)

Addis Ababa University
College of Development Studies
Department of Regional and Local Development Studies

Research Questionnaire for MFI's Key Personnel (Senior Management)

This questionnaire is designed to assess microfinance commercialization achievements, challenges and implications in Ethiopia. The findings of the study are believed to be an essential input for policy alternatives and further strengthening the sector. Thus, your assistance of filling out this questionnaire is very commendable to realize the study objectives. To this end, I would like to assure you most sincerely that whatever information is supplied by you through this questionnaire will strictly be confidential and used for this research purpose only.

If you found some unclear points on the questionnaire, please, contact Mr. **Asefa** through his cell phone no. +251911945817. Thank you for your cooperation in advance.

I. Respondent's Basic Information:

a. Age:----------
b. Sex:----------
c. Academic background and field of study: ----------
d. For how long you have been working for microfinance industry? ----------
e. For how long you have been working for this institution? ----------
f. Your current work position in the institution:----------
g. For how long you have been working for this position? ----------

II. MFI's Background Information:

a. Name of the Institution:----------
b. Date of establishment:----------
c. Vision of your institution:----------

d. Mission statement of your institution (As dictated on the foundation text, MOA):----------
---

e. Affiliation :----------(regional government/ City Administration, NGO or individual investors).

f. Please, would list the major shareholders/owners of the institution and the ratio of their equity?

No	Name of the shareholder	% share from the equity (paid up)
1		
2		
3		
4		
5		
6		
7		

g. Target groups of your institution :----------
---

h. Geographic areas of operation:----------

---

i. Total number branches as at June 2012:----------

j. Proportion branches located at rural areas----------

k. Total number of active clients as at June 2012 (borrowers with loan outstanding balance and non borrowing savers with saving balance only):----------

l. Proportion of rural clients: ----------

m. Proportion of women clients:----------

III. Supports:

a. Please, would you list out the major supports (financial and or non-financial) that your institution has secured from its affiliate, government, NGOs (international or local organizations) and others.

No	Name of the supporter	Forms of supports	Reason for support	Date the partnership established	Current status (active or inactive)
1					
2					
3					
4					
5					
6					

IV. Commercialization[4] and Self-sustainability[5]:

a. What is your understanding about self-sustainability and its implications?----------

---

Does your institution currently ensure self-sustainability? Yes ☐ or No ☐

b. If the answer for "b" is "yes", please, would you indicate the core success factors? --------

---

If the answer for "b" is "no", please, would you indicate the reasons?----------

---

c. Please, would you indicate the core challenges (external and internal) of microfinance institutions to ensure self-sustainability in line with severity order by ranking (1, 2, 3.....)?

---

[4] According to this study, commercialization refers to the movement of microfinance institution towards self-sustainability through the applications of business-like approaches such as applying competitive and fair pricing strategies that compensate all the costs and probable risks, increasing efficiency, utilizing market-based fund sources, strengthening risk management and supplying target market-driven products and services, while pursuing the social objective of poverty alleviation

[5] Ensuring the longevity of the institution's operations through commercialization as if ongoing external supports (subsides, donations....) are used-up

	Particulars	Rank
a	Institutional bases (ownership, mission….)	
b	Inadequate leadership and management skills	
c	Governance related challenges	
d	Shortage of loan able funds	
e	Poor commercialization	
f	Inefficiencies	
g	Limited institutional capacity	
h	Limited use of existing technology	
i	Underdeveloped financial system and market	
j	Underdeveloped prudential regulation and supervision	
k	Lack of adequate supports and responsible institutions	
l	Underdeveloped infrastructure	
m	Unsound macroeconomic policy and management	
n *if others, please specify*		
o		
p		

d. Please, would you give justifications for at last five core challenges identified at "e" based on your ranking order?

---

e. Microfinance operations commercialization can foster self-sustainability of the institution and better services to the target groups

Agree ☐ Not sure ☐ Disagree ☐

Tend to agree ☐ Tend to disagree ☐

f. If the answer for "g" is "either agree or tend to agree", please would you rate commercialization efforts of your institution?

Weak ☐ Good ☐

Fair ☐ Very good ☐

g. If the answer for "h" is "either very good or good", please, would you indicate the strategies adopted to realize such a success? ----------

---

h. If the answer for "g" is "tend to disagree or disagree", please, would you specify the core reasons?----------

---

i. Please, would you indicate the core challenges (internal and external) for microfinance operations commercialization in line with severity order by ranking (1, 2, 3....)?

	Particulars	Rank
a	Institutional bases (ownership, mission....)	
b	Having negative perceptions about MFI commercialization	
c	Lack of awareness	
d	In adequate leadership and management skills	
e	Weak institutional capacity	
f	Limited use of existing technology	
g	Governance related challenges	
h	Underdeveloped financial system and market	
i	Underdeveloped prudential regulation and supervision	
j	Lack of adequate supports and responsible institutions	
k	Underdeveloped legal system	
l	Unsound macroeconomic policy and management	
m	Underdeveloped infrastructure	
n *if others, please specify*		
p		
q		

j. Please, would you give justifications for at last five core challenges identified at "k" based on your ranking order?

---

k. Do the higher level authorities (particularly, Generally Assembly/Owners and BODs) of the institution supports commercialization of microfinance operations so as to ensure self-sustainability? Yes ☐ or No ☐

l. If the answer for "m" is "yes", please, would you specify reasons and the core areas of supports?----------

---

m. Do you think that the current regulatory frame works and other government policies of the country supportive to microfinance commercialization? Yes ☐ or No ☐

n. If the answer for "o" is "yes", please, would you specify the core areas of supports?-------

---

o. If the answer for "o" is "no", please, would you specify the reasons?----------

---

p. What is your understanding about innovative business models with regards to cost saving strategies?----------

q. Does the institution ever introduce cost-saving innovative business models which are aimed to improve operational efficiency and customer satisfaction? Yes ☐ or No ☐

r. If the answer for "s" is "yes", please, would you specify about the model/s and its implementation status and outcomes? ----------

---

s. How do you rate the current cost consciousnesses of the institution?

Weak ☐ good ☐

Fair ☐ Very good ☐

t. If the answer for "u" is either "good" or "very good", please, would you indicate the core success factors? ----------

---

u. If the answer for "u" is either "weak" or "fair", please, would you indicate the core cost factors of the institution?----------

---

V. Products, Services and Methodologies:

a. Please, would you list out the institution's products, services and methodologies along their respective lunching date in the following table?

1. Products and Services (financial and non-financial)

No	Name of the product/service	Date launched
a	**Loan products**	
1		
2		
3		
4		
5		

b	Saving products	
1		
2		
3		
4		
5		
c	Others	
1		
2		
3		

2. Methodologies

No	Name of the methodology*	Date adopted
1		
2		
3		
4		
5		

* Group, individual, village banking and others.....

b. Which of the above products, services and methodologies are designed for the poor only?----------

---

c. Does the institution has women targeted products, services or and methodologies? Yes ☐ or No ☐

d. If the answer for "c" is "yes", please, would you indicate the name of the products, services or and methodologies? ----------

---

VI. Loan Sizes per Product and Cycles

a. Does the institution has prescribed loan sizes per products and cycles? Yes ☐ or No ☐

b. If the answer for "a" is "yes, what are the basis for setting and adjusting loan sizes per product and cycles at your MFIs are:

Statutory requirements and risks only ☐

Statutory requirements and costs only ☐

Statutory requirements and target groups' business/markets conditions only ☐

All ☐

c. If the answer for "a" is "Yes", does this prescription dictates?

Maximum loan size only ☐

Minimum loan size only ☐

Both ☐

d. If the answer for "c" is "maximum", please, would you specify the basis for setting the maximum loan size along with its core reasons?

.....

e. If the answer for "c" is "minimum", please, would you specify the basis for setting the minimum loan size along with its core reasons?----------

---

---

f. If the answer for "c" is "both", please, would you specify the basis along with its core reasons?----------

---

VII. Pricing of Products and Services:

a. What is your understanding about reaching the target clients with right products and services at affordable price? ----------

---

b. Does your institution apply different loan interest rates and computation methods for different loan products? Yes ☐ or No ☐

c. If the answer for "b" is "yes", please, would you specify the basis for these variations in loan interest rates, computation methods with justifiable reasons?----------

---

d. What is the average rate of interest applied on the loan products? ----------

e. Please, would you indicate other forms of fees that are attached with loan processing and administering (if applicable)? ----------

f. What is the average rate of interest paid for saving products? ----------

g. Do you think that these interest rates, fees and methods of computations are fair and competitive with regards to the target market and existing macroeconomic situations of the country? Yes ☐ or No ☐

h. If the answer for "g" is "yes", please, would you specify the core reasons? ----------

---

If the answer for "g" is "no", please, would you specify the core reasons? ----------

---

If the institution has products/ services pricing strategy, please, would you indicate the bases for pricing of the products and services?

Costs only ☐

Costs + probable risks ☐

Costs + probable risks + margin ☐

If it is different from the above combinations, please (specify) ----------

---

i. Does the institution has business development and marketing department/unit? Yes ☐ or No ☐

j. Please, would you state the core marketing related issues undertaken by the institution?---

---

k. How often does the institution conduct market survey to improve its services and respond to the market to be competitive? ----------

---

VIII. Fund Sources:

a. Please, would you indicate the major funding sources of your institution by ranking (1, 2, 3.....) in line with the audited statement?

Fund sources	Rank
Equity	
Savings	
Commercial loans (borrowings from the market at the market rate)	
Concessionary loans (Subsidized borrowings)	
Subsides	
Donations	

b. Please, would you indicate the opportunities and challenges of each funding bases in the context of MFIs in the country?

No	Fund sources	Opportunities	Challenges faced while accessing the fund
1	Equity		
2	Savings		
3	Commercial loans		
4	Concessionary loans		
5	Subsides		
6	Donations		
7			

c. Does the institution has a strategy to strengthen its fund base and diversify the sources? Yes ☐ or No ☐

d. If the answer for "c" is "yes", please, would you indicate the short-term identified priority funding strategy and why? ----------

---

e. If the answer for "c" is "yes", please, would you indicate the long-term identified priority funding strategy and why? ----------

---

f. Please, would you dictate in detail the core inhibiting factors/challenges both internal and external for MFIs to strengthen its fund bases through dependable market-based fund sources (savings, commercial loans and others)?----------

---

IX. Risk Management:

a. What is your understanding about risk and risk management? ----------

---

b. What are the risk management functions undertaken by your institution?----------

---

c. Does the institution has responsible risk management department/unit? Yes ☐ or No ☐

d. If the answer for "c" is "yes", please, would you indicate the core functions of the responsible organ/body?----------

e. Does the institution has risk management committees at BOD and senior management levels? Yes ☐ or No ☐

f. If the answer for "e" is "yes", please, would you indicate the core functions that have been performed by these respective committees ?----------
---

g. Does the institution has risk management guideline that shall clearly articulate the risk identification, classifications, definitions, appetite and mitigation strategy? Yes ☐ or No ☐

h. If the answer for "g" is "yes", please, would you indicate the core risks of the institution in line of the severity order by ranking and respective mitigation strategies that have been deployed?

	Types of Risks	**Rank**	**Respective mitigation strategies employed**
a	Strategic risk		
b	Credit risk		
c	Operational risk		
d	Liquidity risk		
e	Interest rate risk		
f	Macro-economic risks		
n *if others, please specify*			
p			
q			

i. Please, would you indicate the challenges (internal and external) for MFIs to ensure effective risk manage practices? ----------
---

Annex 2 (b)

Addis Ababa University
College of Development Studies
Department of Regional and Local Development Studies

Research Questionnaire for Central Bank's MFIs Supervisors/Examiners

This questionnaire is designed to assess microfinance commercialization achievements, challenges and implications in Ethiopia. The findings of the study are believed to be an essential input for policy alternatives and further strengthening the sector. Thus, your assistance of filling out this questionnaire is very commendable to realize the study objectives. To this end, I would like to assure you most sincerely that whatever information is supplied by you through this questionnaire will strictly be confidential and used for this research purpose only. If you found some unclear points on the questionnaire, please, contact Mr. **Asefa** through his cell phone no. +251911945817. Thank you for your cooperation in advance.

I. Respondent's Basic Information:

a. Age:----------
b. Sex:----------
c. Academic background and field of study: ----------
d. For how long you have been working for microfinance industry? ----------
e. For how long you have been working for this organization? ----------
f. Your current work position in this organization:----------
g. For how long you have been working for this position? ----------

II. Research Specific Information:

a) What is your understanding about MFI's self-sustainability? ----------
---

b) Does license for microfinance actors is granted just as a business company to operate in a commercial basis? Yes ☐ or No ☐

c) Does the prospects of sustainability is considered as one of the preconditions for obtaining micro-financing business license? Yes ☐ or No ☐

d) As we know some MFIs were already liquidated or merged, and some are in the process of merging. Please, would you indicate the major causes for not being successful? --------

---

e) Please, would you rank (1, 2, 3…) the following general factors that affect self-sustainability and outreach of Ethiopian MFIs with regulatory perspectives in light of severity order?

	Particulars	Rank
a	Institutional bases (ownership, mission….)	
b	Inadequate leadership and management skills	
c	Governance related challenges	
d	Shortage of loanable funds	
e	Poor commercialization	
f	Inefficiencies	
g	Limited institutional capacity	
h	Limited use of existing technology	
i	Underdeveloped financial system and market	
j	Underdeveloped prudential regulation and supervision	
k	Lack of adequate supports and responsible institutions	
l	Underdeveloped infrastructure	
m	Unsound macroeconomic policy and management	
n *if others, please specify*		
o		
p		

f) How do you see/rate Ethiopian microfinance institutions' pricing strategies and efficiency in light of their target groups and macroeconomic condition of the country?

Weak ☐ Good ☐

Fair ☐ Very good ☐

g) If the answer for "f" is "either very good or good", please, would specify the core success factors? ----------

h) If the answer for "f" is "either weak or fair", please, would specify the core reasons with regulatory perspectives? ----------

i) What is your understanding about microfinance commercialization[6]?----------
---

j) Microfinance operations commercialization can foster self-sustainability of the institution and better services to the target groups (customers).

Agree ☐ Not sure ☐ Disagree ☐

Tend to agree ☐ Tend to disagree ☐

k) If the answer for "i" is "either agree or tend to agree", please would you indicate the core success factors/strategies for Microfinance commercialization? ----------
---

l) If the answer for "i" is "tend to disagree or disagree", please, would you specify the core reasons?----------

m) How do you rate/see the commercialization achievements and practices of Ethiopian MFIs?

Weak ☐ Good ☐

Fair ☐ Very good ☐

n) If the answer for "l" is "either very good or good", please, would specify the core success factors? ----------

o) If the answer for "l" is "either weak or fair", please, would specify the core reasons with regulatory perspectives? ----------

p) Please, would you rank (1, 2, 3....) the following core challenges of microfinance commercialization in Ethiopia in light of the severity order?

	Particulars	Rank
a	Institutional bases (ownership, mission....)	
b	Having negative perceptions about MF operations commercialization	
c	Lack of awareness	
d	In adequate leadership and management skills	
e	Weak institutional capacity	
f	Limited use of existing technology	
g	Governance related challenges	
h	Underdeveloped financial system and market	
i	Underdeveloped prudential regulation and supervision	

[6] According to this study, commercialization refers to the movement of microfinance institution towards self-sustainability through the applications of business-like approaches such as applying competitive and fair pricing strategies that compensate all the costs and probable risks, increasing efficiency, utilizing market-based fund sources, strengthening risk management and supplying target market-driven products and services, while pursuing the social objective of poverty alleviation.

j	Lack of adequate supports and responsible institutions	
k	Underdeveloped legal system	
l	Unsound macroeconomic policy and management	
m	Underdeveloped infrastructure	
n *if others, please specify*		
p		
q		

q) Do you believe that the regulatory approach of the central bank encourages or promotes self-sustainability of the MFIs through commercialization? Yes ☐ or No ☐

r) If the answer for "p" is "Yes", please, would specify the reasons----------

---

s) If the answer for "p" is "No", please, would specify the reasons----------

---

t) What do you think about microfinance commercialization implications in light of the regulator perspective? ----------

u) Does the central bank encourage MFIs to undertake innovative business models? Yes ☐ or No ☐

v) If the answer for "t" is "yes", how?----------

---

w) How do you see/rate the risk management culture of the microfinance institutions in Ethiopia as a regulator?

Weak ☐ Good ☐

Fair ☐ Very good ☐

x) If the answer for "v" is "either very good or good", please, would specify the core success factors? ----------

y) If the answer for "w" is "either weak or fair", please, would specify the core reasons? ----

---

z) Please, would you rank (1, 2, 3....) the following core risks of microfinance sector in Ethiopia in light of the severity order?

	Types of Risks	Rank	Justifications for ranking
a	Strategic risk		
b	Credit risk		
c	Operational risk		
d	Liquidity risk		
e	Interest rate risk		
f	Macro-economic risks		
n *if others, please specify*			
p			
q			

Annex 2 (c)

Addis Ababa University
College of Development Studies
Department of Regional and Local Development Studies

Research Questionnaire for Association's (AEMFI) Experts

This questionnaire is designed to assess microfinance commercialization achievements, challenges and implications in Ethiopia. The findings of the study are believed to be an essential input for policy alternatives and further strengthening the sector. Thus, your assistance of filling out this questionnaire is very commendable to realize the study objectives. To this end, I would like to assure you most sincerely that whatever information is supplied by you through this questionnaire will strictly be confidential and used for this research purpose only. If you found some unclear points on the questionnaire, please, contact Mr. **Asefa** through his cell phone no. +251911945817. Thank you for your cooperation in advance.

I. Respondent's Basic Information:

a) Age:----------
b) Sex:----------
c) Academic background and field of study: ----------
d) For how long you have been working for microfinance industry? ----------
e) For how long you have been working for this organization? ----------
f) Your current work position in this organization:----------
g) For how long you have been working for this position? ----------

II. Research Specific Information:

a) What is your understanding about microfinance institutions' self-sustainability?----------
---

b) How do you see/rate the efforts of Ethiopian MFIs to be self-sustainable?

Weak ☐ Good ☐
Fair ☐ Very good ☐

c) If the answer for "b" is "either very good or good", please, would specify the core reasons? ----------

d) If the answer for "b" is "either weak or fair", please, would specify the core reasons? -----

---

e) Some Ethiopian MFIs are very successful in ensuring self-sustainability while serving marginalized segments of our society, but some are not. Please, would you rank (1, 2, 3…) the following factors that affect self-sustainability and outreach of Ethiopian MFIs in light of the severity order?

	Particulars	Rank
a	Institutional bases (ownership, mission….)	
b	Inadequate leadership and management skills	
c	Governance related challenges	
d	Shortage of loan able funds	
e	Poor commercialization	
f	Inefficiencies	
g	Limited institutional capacity	
h	Limited use of existing technology	
i	Underdeveloped financial system and market	
j	Underdeveloped prudential regulation and supervision	
k	Lack of adequate supports and responsible institutions	
l	Underdeveloped infrastructure	
m	Unsound macroeconomic policy and management	
n *if others, please specify*		
o		
p		

f) How do you see/rate microfinance institutions' pricing strategies and efficiency in light of their target groups and macroeconomic condition of the country?

Weak ☐ Good ☐

Fair ☐ Very good ☐

g) If the answer for "f" is "either very good or good", please, would specify the core success factors? ----------

h) If the answer for "f" is "either weak or fair", please, would specify the core reasons? -----

---

i) What is your understanding about microfinance commercialization?----------

---

j) Microfinance operations commercialization can foster self-sustainability of the institution and better services to the target groups (customers).

Agree ☐ Not sure ☐ Disagree ☐

Tend to agree ☐ Tend to disagree ☐

k) If the answer for "j" is "either agree or tend to agree", please would you indicate the core success factors/strategies for Microfinance commercialization? ----------

---

l) If the answer for "j" is "tend to disagree or disagree", please, would you specify the core reasons?----------

How do you see/rate the commercialization achievements and practices of Ethiopian MFIs?

Weak ☐ Good ☐

Fair ☐ Very good ☐

m) If the answer for "m" is "either very good or good", please, would specify the core success factors? ----------

n) If the answer for "m" is "either weak or fair", please, would specify the core reasons? ----

---

o) Please, would you rank (1, 2, 3....) the following core challenges of microfinance commercialization in Ethiopia in light of severity order?

	Particulars	Rank
a	Institutional bases (ownership, mission....)	
b	Having negative perceptions about MFI commercialization	
c	Lack of awareness	
d	In adequate leadership and management skills	
e	Weak institutional capacity	
f	Limited use of existing technology	
g	Governance related challenges	
h	Underdeveloped financial system and market	
i	Underdeveloped prudential regulation and supervision	
j	Lack of adequate supports and responsible institutions	
k	Underdeveloped legal system	
l	Unsound macroeconomic policy and management	
m	Underdeveloped infrastructure	
n *if others, please specify*		
p		

p) What are the expected implications of microfinance commercialization in light of the Association perspective? ----------

q) Does the association provide supports to its members (MFIs) to ensure self-sustainability through commercialization? Yes ☐ or No ☐

r) If the answer for "r" is "yes", please, would specify the supports? ----------

---

s) If the answer for "r" is "no", please, would specify the core reasons? ----------

---

t) Does the association support its members so as to undertake innovative business models? Yes ☐ or No ☐

u) If the answer for "u" is "yes", how and what are the supports? ----------

---

v) How do you find the risk management culture of the microfinance institutions in Ethiopia?

Weak ☐ Good ☐

Fair ☐ Very good ☐

w) If the answer for "w" is "either very good or good", please, would specify the core success factors? ----------

x) If the answer for "w" is "either weak or fair", please, would specify the core reasons? ----

---

y) Please, would you rank in severity order (1, 2, 3....) the following core risks of microfinance sector in Ethiopia?

	Types of Risks	**Rank**	**Justifications for ranking**
a	Strategic risk		
b	Credit risk		
c	Operational risk		
d	Liquidity risk		
e	Interest rate risk		
f	Macro-economic risks		
n *if others, please specify*			
p			
q			

Annex table 3: Summary of Survey responses and respondents' profile

Particulars		Actors and Key Stakeholders											
		MFIs				Regulatory Authority				AEMFI			
Number of questionnaire distributed		16, (to all participating MFIs)				4				2			
Number of responses collected		11.0				3.0				1.0			
% of the response against expected		69.0%				75.0%				50%			
Respondents' Profiles	Sex	M	F	Total		M	F		Total	M	F		Total
		11	0		11	3		0	3	1		0	1
	Educational Background	College Diploma	BA/BSC degree	MA/MBA and above	Total	College diploma	BA/BSC Degree	MA/MBA and above	Total	College Diploma	BA/BSC Degree	MA/MBA and above	Total
		0	7	4	11	0	0	3	3	0	0	1	1
	Experiences in the sector	≤ 5 yrs	5-10 yrs	> 10 yrs	Total	≤5yrs	5-10 yrs	> 10 yrs	Total	≤5 yrs	5-10 yrs	> 10yrs	Total
		1	6	4	11	0	0	3	3	0	1	0	1
	Current work Position	Expert	Dept/service head	Managing Director /General Manager	Total	Expert	Principal Examiner	Director	Total	Expert	Senior Expert	CEO	Total
		0	7	4	11	0	2	1	3	0	1	1	1

Source: Author compilation from primary data/responses collected

Annex table 4: Yield-n, efficiency and credit risk exposure levels per based affiliations based categories.

No	Name of MFI	Yield on Portfolio (Nominal)	Total expenses to ratio (ELR)	PAR>90 days	Risk Coverage
1	AdCSI	14.0%	9.0%	3.0%	57.0%
2	ACSI	21.0%	10.0%	1.0%	75.0%
3	OCSSCO	18.0%	12.0%	2.9%	71.0%
4	OMO	15.0%	11.0%	6.4%	73.0%
Peer group (Gov't-backed MFIs)		**19.0%**	**10.0%**	**2.3%**	**70.2%**
	Mean of the peer	**17.0%**	**10.5%**	**3.2%**	**6.1%**
	SD of the peer	**2.7%**	**1.1%**	**2.0%**	**8.0%**
1	Wisdom	27.0%	22.2%	0.9%	106.0%
2	Wasasa	20.6%	13.8%	0.5%	201.5%
3	Harbu	20.0%	20.1%	8.4%	70.8%
4	Metamemen	28.0%	17.1%	1.6%	85.3%
5	AVFS	30.3%	31.3%	4.4%	37.8%
6	Gasha	25.4%	25.4%	4.8%	50.7%
7	Meklit	31.0%	17.9%	4.1%	53.0%
8	Digaf	92.8%	162.3%	6.2%	99.1%
9	Letta	17.5%	17.4%	3.7%	43.6%
Peer group (NGO-Backed MFIs)		**25.0%**	**19.0%**	**1.8%**	**82.0%**
	Mean of the Peer	**32.5%**	**36.4%**	**3.8%**	**83.0%**
	SD of the Peer	**21.8%**	**44.8%**	**2.5%**	**50.0%**
1	Aggar	32.0%	16.1%	4.0%	53.4%
2	Dynamic	44.1%	87.3%	6.0%	25.1%
3	Lefayda Credit and Saving	49.9%	105.9%	5.3%	49.0%
Peer group (Investors' owned MFIs)		**32.0%**	**18.0%**	**4.0%**	**52.9%**
	Mean of the Peer	**42.0%**	**69.8%**	**5.0%**	**42.3%**
	SD of the Peer	**7.5%**	**38.7%**	**1.0%**	**15.0%**
Sample MFIs		**19.0%**	**11.1%**	**2.3%**	**70.6%**
	Mean of the sample	**30.4%**	**36.2%**	**4.0%**	**72.0%**
	SD of the sample	**18.7%**	**42.3%**	**2.0%**	**41.0%**

Source: Author computation from secondary data/audited reports of MFIs

Annex table 5: Yield, efficiency and credit risk exposure levels per loan portfolio size based categories

No	Name of MFI	Portfolio Yield-n	ELR	PAR>90 days	Risk Coverage
1	AdCSI	14.0%	9.0%	3.0%	57.0%
2	ACSI	21.0%	10.0%	1.0%	75.0%
3	OCSSCO	18.0%	12.0%	2.9%	71.0%
4	OMO	15.0%	11.0%	6.4%	73.0%
5	Wisdom	27.0%	22.2%	0.9%	106.0%
6	Wasasa	21.0%	13.8%	0.5%	201.5%
Peer group (large MFIs)		**19.0%**	**11.1%**	**2.2%**	**71.1%**
	Mean of the peer	**19.3%**	**13.0%**	**2.3%**	**97.2%**
	SD of the Peer	**4.3%**	**4.4%**	**2.2%**	**53.4%**
1	Aggar	32.0%	16.1%	4.0%	53.4%
2	Harbu	20.0%	20.1%	8.4%	70.8%
3	Meklit	31.0%	17.9%	4.1%	53.0%
4	Metamemen	28.0%	17.1%	1.6%	85.3%
5	AVFS	30.3%	31.3%	4.4%	37.8%
6	Gasha	25.4%	25.4%	4.8%	50.7%
7	Letta	17.5%	17.4%	3.7%	43.6%
Peer group (Medium MFIs)		**27.0%**	**20.0%**	**4.7%**	**59.7%**
	Mean of the peer	**26.3%**	**20.8%**	**4.4%**	**56.4%**
	SD of the peer	**5.2%**	**5.2%**	**1.8%**	**16.2%**
1	Digaf	92.8%	162.3%	6.2%	99.1%
2	Dynamic	44.1%	87.3%	6.0%	25.1%
3	Lefayda Credit and Saving	49.9%	105.9%	5.3%	49.0%
Peer group (Small MFI)		**57.5%**	**110.9%**	**6.0%**	**54.8%**
	Mean of the peer	**62.3%**	**118.5%**	**5.7%**	**57.7%**
	SD of the peer	**21.7%**	**31.9%**	**0.6%**	**37.8%**
Sample MFIs		**19.0%**	**11.0%**	**2.3%**	**70.6%**
	Mean of the sample MFIs	**30.4%**	**36.2%**	**4%**	**72%**
	SD of the sample MFIs	**18.7%**	**42.3%**	**2%**	**41%**

Source: Author computation from secondary data/audited reports of MFIs

Annex table 6: Profitability and Sustainability indicators of MFIs as per affiliations based categorization

No	Name of MFI	AROA	AROE	OSS	FSS
1	AdCSI	1.0%	3.0%	161.0%	112.0%
2	ACSI	5.0%	18.0%	220.0%	150.0%
3	OCSSCO	2.0%	7.0%	142.0%	115.0%
4	OMO	0.0%	2.0%	141.0%	103.0%
Peer group (Gov't backed MFIs)		**3.0%**	**11.0%**	**177.8%**	**129.0%**
	Mean of the peer	**2.0%**	**7.5%**	**166.0%**	**120.0%**
	SD of the peer	**2.1%**	**7.3%**	**37.2%**	**20.6%**
1	Wisdom	1.0%	2.0%	122.0%	105.0%
2	Wasasa	4.0%	14.0%	149.0%	130.0%
3	Harbu	0.0%	-1.0%	99.0%	88.0%
4	Metamemen	4.0%	7.0%	159.0%	122.0%
5	AVFS	-4.0%	-8.0%	97.0%	83.0%
6	Gasha	-3.0%	-9.0%	100.0%	89.0%
7	Meklit	8.0%	23.0%	173.0%	142.0%
8	Digaf	-42.0%	-81.0%	57.0%	54.0%
9	Letta	-2.0%	-6.0%	101.0%	86.0%
Peer group (NGO backed MFIs)		**2.0%**	**5.0%**	**127.6%**	**109.8%**
	Mean of the peer	**-3.8%**	**-6.6%**	**117.4%**	**99.9%**
	SD of the peer	**14.8%**	**29.9%**	**36.8%**	**27.5%**
1	Aggar	9.0%	36.0%	199.0%	163.0%
2	Dynamic	-31.0%	-89.0%	51.0%	48.0%
3	Lefayeda Credit and Saving	-22.0%	-176.0%	47.0%	47.0%
Peer group (Investors' owned MFIs)		**7.9%**	**31.0%**	**176.6%**	**148.1%**
	Mean of the peer	**-14.7%**	**-76.3%**	**99.0%**	**86.0%**
	SD of the peer	**21.0%**	**106.6%**	**86.6%**	**66.7%**
Sample MFIs		**3.0%**	**11.0%**	**171.3%**	**127.0%**
	Mean of the sample	**-4.4%**	**-16.1%**	**126.1%**	**102.3%**
	SD of the Mean	**14.5%**	**54.1%**	**51.1%**	**34.9%**

Source: Author computation from secondary data/audited reports of MFIs

Annex table 7: Profitability and Sustainability indicators of MFIs as per Loan size categorization

	Name of MFI	AROA	AROE	OSS	FSS
1	AdCSI	1.0%	3.0%	161.0%	112.0%
2	ACSI	5.0%	18.0%	220.0%	150.0%
3	OCSSCO	2.0%	7.0%	142.0%	115.0%
4	OMO	0.0%	2.0%	141.0%	103.0%
5	Wisdom	1.0%	2.0%	122.0%	105.0%
6	Wasasa	4.0%	14.0%	149.0%	130.0%
Peer group (Large MFIs)		**3.0%**	**11.0%**	**173.1%**	**127.6%**
	Mean of the peer	**2.2%**	**7.7%**	**155.8%**	**119.2%**
	SD of the peer	**1.9%**	**6.8%**	**33.9%**	**17.9%**
1	Aggar	9.0%	36.0%	199.0%	163.0%
2	Harbu	0.0%	-1.0%	99.0%	88.0%
3	Meklit	8.0%	23.0%	173.0%	142.0%
4	Metamemen	4.0%	7.0%	159.0%	122.0%
5	AVFS	-4.0%	-8.0%	97.0%	83.0%
6	Gasha	-3.0%	-9.0%	100.0%	89.0%
7	Letta	-2.0%	-6.0%	101.0%	86.0%
Peer group (Medium MFIs)		**2.0%**	**6.0%**	**134.1%**	**113.2%**
	Mean of the peer	**1.7%**	**6.0%**	**132.6%**	**110.4%**
	SD of the peer	**5.3%**	**17.3%**	**43.2%**	**32.2%**
1	Dynamc	-31.0%	-89.0%	51.0%	48.0%
2	Lefayda Credit and saving	-22.0%	-176.0%	47.0%	47.0%
3	Digaf	-42.0%	-81.0%	57.0%	54.0%
Peer group (Small MFIs)		**-30.1%**	**-101.1%**	**51.9%**	**50.0%**
	Mean of the peer	**-31.9%**	**-115.3%**	**51.7%**	**49.7%**
	SD of the peer	**10.2%**	**52.7%**	**5.0%**	**3.8%**
Sample MFIs		**3.0%**	**11.0%**	**171.3%**	**127.0%**
	Mean of the sample	**-4.4.0%**	**-16.1%**	**126.1%**	**102.3%**
	SD of the Sample	**14.5%**	**54.1%**	**51.1%**	**34.9%**

Source: Author computation from secondary data/audited reports of MFIs

Annex table 8: Funding structure per Affiliation Categories

No	Name of MFI	Deposit to Assets ratio	Deposit to loan ratio	Voluntary savings to loan ratio	Equity to assets ratio	Debt to Equity ratio	Non-deposit liabilities to loan ratio	Donation to assets ratio	Loan to assets ratio
1	AdCSI	47.7%	75.4%	29.4%	27.6%	262.4%	39.0%	4.4%	63.0%
2	ACSI	41.7%	56.8%	45.5%	26.7%	274.9%	43.1%	1.7%	73.0%
3	OCSSCO	46.7%	56.8%	29.2%	25.3%	294.9%	34.0%	6.1%	82.0%
4	OMO	41.7%	57.7%	37.3%	17.4%	475.0%	56.5%	18.1%	72.0%
Peer group (Gov't-backed MFIs)		**43.7%**	**52.2%**	**38.2%**	**25.0%**	**299.2%**	**42.2%**	**4.8%**	**74.0%**
	Mean of the Peer	**44.8%**	**61.8%**	**35.0%**	**24.5 %**	**327.0 %**	**43.3%**	**7.5%**	**72.5%**
	SD of the Peer	**3.2%**	**8.9%**	**7.7%**	**5.0%**	**99.8%**	**9.9%**	**7.2%**	**7.8%**
1	Wisdom	31.3%	43.7%	28.8%	48.3%	107.0%	28.5%	41.4%	72.0%
2	Wasasa	26.2%	31.4%	16.2%	31.8%	214.4%	50.3%	10.0%	83.0%
3	Harbu	28.5%	37.1%	11.9%	31.5%	217.8%	52.2%	23.1%	74.0%
4	Metamemen	19.0%	25.3%	1.5%	46.7%	113.9%	45.7%	47.5%	77.0%
5	AVFS	21.3%	36.6%	5.1%	42.9%	133.0%	61.6%	0.5%	84.0%
6	Gasha	35.2%	43.6%	5.5%	32.5%	207.7%	40.0%	27.9%	81.0%
7	Meklit	25.6%	30.6%	7.6%	34.4%	191.0%	47.9%	4.4%	75.0%
8	Digaf	51.1%	89.2%	31.1%	46.9%	113.2%	3.5%	76.1%	58.0%
9	Letta	32.4%	45.0%	7.7%	32.6%	206.7%	48.7%	7.8%	72.0%
Peer group (NGO-backed MFIs)		**28.5%**	**37.0%**	**19.4%**	**40.6%**	**146.6%**	**40.7%**	**27.2%**	**70.3%**
	Mean of the Peer	**29.8%**	**42.4%**	**13.6%**	**38.7 %**	**167.2 %**	**42.1%**	**26.6%**	**73.2%**
	SD of the Peer	**9.6%**	**18.8%**	**10.1%**	**7.4%**	**48.9%**	**17.3%**	**24.8%**	**9.9%**
1	Aggar	44.4%	60.1%	45.0%	26.4%	279.5%	39.7%	0.0%	74.0%
2	Dynamic	69.3%	142.6%	122.1%	29.6%	237.9%	2.2%	0.0%	49.0%
3	Lefayda	69.2%	198.9%	165.2%	20.0%	399.3%	31.1%	0.0%	35.0%
Peer group (Investors' owned MFIs)		**44.5%**	**61.0%**	**45.8%**	**26.3%**	**280.3%**	**40.1%**	**0.0%**	**72.9%**
	Mean of the peer	**48.3%**	**98.0%**	**74.7%**	**25.3 %**	**305.3 %**	**60.3%**	**0.0%**	**52.7%**
	SD of the peer	**18.9&**	**41.9%**	**41.7%**	**5.0%**	**83.7%**	**70.7%**	**0.0%**	**19.8%**
Sample MFIs		**42.7%**	**57.5%**	**37.0%**	**26.1%**	**283.9%**	**42.1%**	**6.2%**	**74.0%**
	Mean of the sample	**37.0%**	**57.5%**	**30.4%**	**32.6 %**	**233.0 %**	**45.8%**	**16.8%**	**69.2%**
	SD of the sample	**13.1%**	**30.1%**	**29.4%**	**9.4%**	**100%**	**30.0%**	**21.8%**	**13.6%**

Source: Author computation based on secondary data of MFIs

Annex table 9: Funding Structure per Loan portfolio sizes categories

No	Name of MFI	Deposit to Assets Ratio	Deposit to Loan Ratio	Voluntary Savings to Loan Ratio	Equity to Assets Ratio	Debt to Equity ratio	Non Deposit Liabilities to Loan Ratio	Donation to Assets Ratio	Loan to Assets Ratio
1	AdCSI	47.7%	75.4%	29.4%	27.6%	262.4%	39.0%	4.4%	63%
2	ACSI	41.7%	56.8%	45.5%	26.7%	274.9%	43.1%	1.7%	73%
3	OCSSCO	46.7%	56.8%	29.2%	25.3%	294.9%	34.0%	6.1%	82%
4	OMO	41.7%	57.7%	37.3%	17.4%	475.0%	56.5%	18.1%	72%
5	Wisdom	31.3%	43.7%	28.8%	48.3%	107.0%	28.5%	41.4%	72%
6	Wasasa	26.2%	31.4%	16.2%	31.8%	214.4%	50.3%	10.0%	83%
Peer Group (Large MFIs)		**43.0%**	**50.5%**	**37.4%**	**25.9%**	**286.6%**	**42.0%**	**6.0%**	**74.0%**
	Mean of the peer	**39.3%**	**53.7%**	**30.8%**	**29.5%**	**271.3%**	**41.8%**	**13.5%**	**74.2%**
	SD of the peer	**8.9%**	**14.9%**	**9.7%**	**10.3%**	**120.4%**	**10.6%**	**14.6%**	**7.4%**
1	Aggar	44.4%	60.1%	45.0%	26.4%	279.5%	39.7%	0.0%	74%
2	Harbu	28.5%	37.1%	11.9%	31.5%	217.8%	52.2%	23.1%	77%
3	Metamemen	19.0%	25.3%	1.5%	46.7%	113.9%	45.7%	47.5%	84%
4	AVFS	21.3%	36.6%	5.1%	42.9%	133.0%	61.6%	0.5%	81%
5	Gasha	35.2%	43.6%	5.5%	32.5%	207.7%	40.0%	27.9%	75%
6	Meklit	25.6%	30.6%	7.6%	34.4%	191.0%	47.9%	4.4%	58%
7	Letta	32.4%	45.0%	7.7%	32.6%	206.7%	48.7%	7.8%	72%
Peer group (Medium MFIs)		**30.5%**	**41.0%**	**16.7%**	**34.2%**	**193.0%**	**46.9%**	**16.0%**	**75.3%**
	Mean of the Peer	**29.1%**	**39.7%**	**13.0%**	**35.2%**	**192.0%**	**48.3%**	**16.0%**	**74.4%**
	SD of the Peer	**8.8%**	**11.5%**	**14.4%**	**7.2%**	**55.0%**	**7.5%**	**17.8%**	**8.4%**
1	Digaf	51.1%	89.2%	31.1%	46.9%	113.2%	3.5%	76.1%	57%
2	Dynamic	69.3%	142.6%	122.1%	29.6%	237.9%	2.2%	0.0%	49%
3	Lefayda	69.2%	198.9%	165.2%	20.0%	399.3%	31.1%	0.0%	35%
Peer group (Small MFIs)		**49.3%**	**83.3%**	**74.0%**	**29.7%**	**237.2%**	**46.8%**	**17.8%**	**44.9%**
	Mean of the Peer	**50.7%**	**107.7%**	**70.0%**	**32.3%**	**250.0%**	**48.0%**	**25.3%**	**47.0%**
	SD of the Peer	**18.5%**	**30.6%**	**46.9%**	**13.7%**	**143.4%**	**78.8%**	**43.9%**	**11.1%**
Sample MFIs		**42.7%**	**57.5%**	**37.0%**	**26.1%**	**283.9%**	**42.1%**	**6.2%**	**74.0%**
	Mean of the sample	**37.0%**	**57.7%**	**30.4%**	**32.6%**	**233.0%**	**45.8%**	**16.8%**	**69.2%**
	SD of the sample	**13.1%**	**30.1%**	**29.4%**	**9.4%**	**100%**	**30.0%**	**21.8%**	**13.6%**

Source: Author computation based on secondary data of MFIs

Annex table 10: Outreach indicators Per different Affiliations Categories of MFIs (Gov't-backed, NGO-backed and Investors' owned)							
No	Name of MFI	Number of Active borrowers	% of Women borrowers	Outstanding Loan	Voluntary Savings	Average Loan Balance	Average Outstanding Loan Balance Per GNI
1	AdCSI	215,501.0	51.0%	972,749,000.0	258,612,000.00	4,514	59.1%
2	ACSI	880,606.0	63.0%	4,312,965,600.0	1,941,310,000.00	4,898	64.1%
3	OCSSCO	724,711.0	29.0%	2,405,622,800.0	702,633,600.00	3,319	43.5%
4	OMO	605,026.0	33.0%	1,345,831,800.0	489,307,800.00	2,224	29.1%
Peer group (Gov't backed MFIs)		**2,425,844.0**	**44.0%**	**9,037,169,200.0**	**3,391,863,400.00**	**3,725**	**48.8%**
	Mean of the Peer	**606,461.0**	**44.0%**	**2,259,292,300.0**	**847,965,850.0**	**3,738.9**	**48.9%**
	SD of the Peer	**284,013.1**	**16.0%**	**1,497,619,264.7**	**751,109,501.7**	**1,212.9**	**15.9%**
1	Wisdom	63,024.0	66.0%	273,790,800.0	78,880,800.00	4,344	56.9%
2	Wasasa	65,768.0	41.0%	199,368,100.0	27,956,600.00	3,031	39.7%
3	Harbu	21,241.0	39.0%	46,738,400.0	5,545,700.00	2,200	28.8%
4	Metamemen	13,549.0	76.0%	32,272,600.0	1,884,309.18	2,382	31.2%
5	AVFS	12,675.0	60.0%	14,655,100.0	742,400.00	1,156	15.1%
6	Gasha	5,207.0	31.0%	22,865,700.0	1,268,200.00	4,391	57.5%
7	Meklit	9,352.0	49.0%	37,452,100.0	2,859,700.00	4,005	52.4%
8	Digaf	435.0	39.0%	367,300.0	114,200.00	844	11.1%

9	Letta	2,478.0	27.0%	12,645,400.0	969,100.00	5,103	66.8%
Peer group (NGO backed MFIs)		**193,729.0**	**53.0%**	**640,155,500.0**	**120,221,009.18**	**3,304**	**43.3%**
	Mean of the Peer	**21,525.4**	**48.0%**	**71,128,388.9**	**13,357,889.9**	**3,050.8**	**39.9%**
	SD of the Peer	**25,108.9**	**17.0%**	**96,632,114.2**	**26,085,072.5**	**1,509.2**	**19.8%**
1	Aggar	7,119.0	30.0%	51,273,000.0	23,078,852.37	7,202	94.3%
2	Dynamic	163.0	74.0%	463,400.0	565,800.00	2,843	37.2%
3	Lefayda	317.0	82.0%	397,300.0	428,400.00	1,253	16.4%
Peer group (Investors' owned MFIs)		**7,599.0**	**33.1%**	**52,133,700.0**	**24,073,052.37**	**6,861**	**89.8%**
	Mean of the peer	**2,533.0**	**62.0%**	**17,377,900.0**	**8,024,350.8**	**3,766**	**49.3%**
	SD of the peer	**3,972.3**	**28.0%**	**29,354,036.3**	**13,037,761.8**	**3,080**	**40.3%**
Sample MFIs		**2,627,172.0**	**44.9%**	**9,729,458,400.0**	**3,536,157,461.6**	**3,703**	**48.5%**
	Mean of the sample	**164,198.3**	**49.4%**	**608,091,150.0**	**221,009,841.3**	**3,357.0**	**43.9%**
	SD of the sample	**293,377.76**	**18.5%**	**1,193,109,781.8**	**502,973,668.4**	**1,703.7**	**22.3%**
Source: Author computation based on secondary data of MFIs and AEMFI							

Annex table 11: Outreach Indicators per Loan portfolio size based categories of MFIs (Large, Medium and Small)							
No	**Name of MFI**	**Number of Active borrowers**	**% of Women borrowers**	**Outstanding Loan**	**Voluntary Savings**	**Average Loan Balance**	**Average Outstanding Loan Balance Per GNI**
1	AdCSI	215,501.0	51.0%	972,749,000.0	258,612,000.00	4,514	59.1%
2	ACSI	880,606.0	63.0%	4,312,965,600.0	1,941,310,000.00	4,898	64.1%
3	OCSSCO	724,711.0	29.0%	2,405,622,800.0	702,633,600.00	3,319	43.5%
4	OMO	605,026.0	33.0%	1,345,831,800.0	489,307,800.00	2,224	29.1%
5	Wisdom	63,024.0	66.0%	273,790,800.0	78,880,800.00	4,344	56.9%
6	Wasasa	65,768.0	41.0%	199,368,100.0	27,956,600.00	3,031	39.7%
Peer Group (Large MFIs)		**2,554,636.0**	**45.0%**	**9,510,328,100.0**	**3,498,700,800.0**	**3,723**	**49.0%**
	Mean of the Peer	**425,772.7**	**47.0%**	**1,585,054,683.3**	**583,116,800.0**	**3,722**	**49.0%**
	SD of the Peer	**356,026.2**	**15.0%**	**1,561,186,479.6**	**712,114,221.0**	**1,027**	**14.0%**
1	Aggar	7,119.0	30.0%	51,273,000.0	23,078,852.37	7,202	94.3%
2	Harbu	21,241.0	39.0%	46,738,400.0	5,545,700.00	2,200	28.8%
3	Metamemen	13,549.0	76.0%	32,272,600.0	1,884,309.18	2,382	31.2%
4	AVFS	12,675.0	60.0%	14,655,100.0	742,400.00	1,156	15.1%
5	Gasha		31.0%				57.5%

		5,207.0		22,865,700.0	1,268,200.00	4,391	
6	Meklit	9,352.0	49.0%	37,452,100.0	2,859,700.00	4,005	52.4%
7	Letta	2,478.0	27.0%	12,645,400.0	969,100.00	5,103	66.8%
Peer group (Meduim MFIs)		**71,621.0**	**49.0%**	**217,902,300.0**	**36,348,261.6**	**3,042**	**40.0%**
	Mean of the Peer	**10,231.6**	**45.0%**	**31,128,900.0**	**5,192,608.8**	**3,777**	**50.0%**
	SD of the Peer	**6,245.1**	**18.0%**	**15,121,940.4**	**8,056,809.4**	**2,050**	**27.0%**
1	Digaf	435.0	39.0%	367,300.0	114,200.00	844	11.1%
2	Dynamic	163.0	74.0%	463,400.0	565,800.00	2,843	37.2%
3	Lefayda	317.0	82.0%	397,300.0	428,400.00	1,253	16.4%
Peer group (Small MFIs)		**915.0**	**60.0%**	**1,228,000.0**	**1,108,400.0**	**1,342.1**	**17.6%**
	Mean of the peer	**305.0**	**65.0%**	**409,333.3**	**369,466.7**	**1,646.9**	**21.6%**
	SD of the peer	**136.4**	**23.0%**	**49,167.1**	**231,496.2**	**1,055.8**	**13.8%**
Sample MFIs		**2,627,172.0**	**44.9%**	**9,729,458,400.0**	**3,536,157,461.6**	**3,703**	**48.5%**
	Mean of the sample	**164,198.3**	**49.4%**	**608,091,150.0**	**221,009,841.3**	**3,357.0**	**43.9%**
	SD of the sample	**293,377.76**	**18.5%**	**1,193,109,781.8**	**502,973,668.4**	**1,703.7**	**22.3%**
Source: Author Computation based on secondary data of MFIs and AEMFI							

Annex table 12: One-Way ANOVA and Kurskal Wallis test results of Affiliations based categories of MFIs (Gov't-backed, NGO-backed and Investors' owned)									
		ANOVA					Kruskal Wallis Test		
Performance indicators		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**	**Chi-Square**	**df**	**Asymp. Sig.**
LnGrossloan	Between Groups	87.217	2	43.609	12.382	**.001**			
	Within Groups	45.783	13	3.522					
	Total	133.000	15						
LnActiveborrower	Between Groups	80.528	2	40.264	17.948	**.000**			
	Within Groups	29.164	13	2.243					
	Total	109.692	15						
LnVoluntarysaving	Between Groups	101.253	2	50.626	16.090	**.000**			
	Within Groups	40.903	13	3.146					
	Total	142.155	15						
LnYield	Between Groups	1.463	2	.731	4.484	**.033**			
	Within Groups	2.120	13	.163					
	Total	3.583	15						
Total Expenses to loan Ratio							8.724	2	**.013**
Portfolio at Risk>90 days	Between Groups	.001	2	.000	.550	.590			
	Within Groups	.006	13	.000					
	Total	.007	15						
Adjusted Return on assets							1.068	2	.586
Adjusted Return on equity							1.792	2	.408
Operational self-sufficiency	Between Groups	.925	2	.462	2.005	.174			
	Within Groups	2.997	13	.231					
	Total	3.921	15						
Financial self-sufficiency							1.784	2	.410
Loan to assets ratio							2.975	2	.226
Percentage of Women borrower	Between Groups	.038	2	.019	.518	.608			
	Within Groups	.476	13	.037					

	Total	.514	15						
Average loan balance per GNI	Between Groups	.240	2	.120	3.090	.080			
	Within Groups	.505	13	.039					
	Total	.745	15						
Deposit to assets ratio	Between Groups	.110	2	.055	4.826	**.027**			
	Within Groups	.147	13	.011					
	Total	.257	15						
Non-deposit liabilities to loan							.281	2	.869
LnVoluntarysavtoloan	Between Groups	9.187	2	4.593	12.072	**.001**			
	Within Groups	4.947	13	.381					
	Total	14.134	15						
LnEquitytoAssets ratio	Between Groups	.796	2	.398	9.832	**.003**			
	Within Groups	.526	13	.040					
	Total	1.321	15						
Debt to equity ratio	Between Groups	8.979	2	4.490	9.264	**.003**			
	Within Groups	6.300	13	.485					
	Total	15.280	15						
LnDonationtoassets	Between Groups	18.087	2	9.044	8.964	**.004**			
	Within Groups	13.115	13	1.009					
	Total	31.202	15						
Bold signs reveals that the mean difference value is significant at 0.05									

Annex table 13: Multiple Comparisons of means of affiliations based categories of MFIs							
Tukey HSD ; 1: Gov't-backed MFIs; 2: NGO-backed MFIs; and 3: Investors' owned MFIs							
Performance Indicators			Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
LnGrossloan	1.0	2.0	4.31557*	1.12772	**.006**	1.3379	7.2933
		3.0	6.81165*	1.43331	**.001**	3.0271	10.5962
	2.0	1.0	-4.31557*	1.12772	**.006**	-7.2933	-1.3379
		3.0	2.49608	1.25110	.153	-.8074	5.7995
	3.0	1.0	-6.81165*	1.43331	**.001**	-10.5962	-3.0271
		2.0	-2.49608	1.25110	.153	-5.7995	.8074
LnActiveborrower	1.0	2.0	4.00925*	.90006	**.002**	1.6327	6.3858
		3.0	6.61952*	1.14395	**.000**	3.5990	9.6401
	2.0	1.0	-4.00925*	.90006	**.002**	-6.3858	-1.6327
		3.0	2.61027	.99852	.052	-.0263	5.2468
	3.0	1.0	-6.61952*	1.14395	**.000**	-9.6401	-3.5990
		2.0	-2.61027	.99852	.052	-5.2468	.0263
LnVoluntarysaving	1.0	2.0	5.63792*	1.06592	**.000**	2.8234	8.4524
		3.0	6.23287*	1.35476	**.001**	2.6557	9.8100
	2.0	1.0	-5.63792*	1.06592	**.000**	-8.4524	-2.8234
		3.0	.59495	1.18253	.871	-2.5275	3.7174
	3.0	1.0	-6.23287*	1.35476	**.001**	-9.8100	-2.6557
		2.0	-.59495	1.18253	.871	-3.7174	2.5275
LnYield	1.0	2.0	-.52263	.24269	.117	-1.1634	.1182
		3.0	-.90015*	.30846	**.030**	-1.7146	-.0857
	2.0	1.0	.52263	.24269	.117	-.1182	1.1634
		3.0	-.37752	.26924	.368	-1.0884	.3334
	3.0	1.0	.90015*	.30846	**.030**	.0857	1.7146

		2.0	.37752	.26924	.368	-.3334	1.0884
Portfolio at Risk>90 days	1.0	2.0	-.00528	.01337	.918	-.0406	.0300
		3.0	-.01750	.01699	.572	-.0624	.0274
	2.0	1.0	.00528	.01337	.918	-.0300	.0406
		3.0	-.01222	.01483	.695	-.0514	.0269
	3.0	1.0	.01750	.01699	.572	-.0274	.0624
		2.0	.01222	.01483	.695	-.0269	.0514
Operational self-sufficiency	1.0	2.0	.48556	.28851	.248	-.2762	1.2474
		3.0	.67000	.36669	.200	-.2982	1.6382
	2.0	1.0	-.48556	.28851	.248	-1.2474	.2762
		3.0	.18444	.32008	.835	-.6607	1.0296
	3.0	1.0	-.67000	.36669	.200	-1.6382	.2982
		2.0	-.18444	.32008	.835	-1.0296	.6607
Financial self-sufficiency	1.0	2.0	.20111	.21220	.621	-.3592	.7614
		3.0	.34000	.26971	.441	-.3721	1.0521
	2.0	1.0	-.20111	.21220	.621	-.7614	.3592
		3.0	.13889	.23542	.828	-.4827	.7605
	3.0	1.0	-.34000	.26971	.441	-1.0521	.3721
		2.0	-.13889	.23542	.828	-.7605	.4827
Percentage of Women borrower	1.0	2.0	-.09667	.11500	.685	-.4003	.2070
		3.0	.00333	.14616	1.000	-.3826	.3893
	2.0	1.0	.09667	.11500	.685	-.2070	.4003
		3.0	.10000	.12758	.719	-.2369	.4369
	3.0	1.0	-.00333	.14616	1.000	-.3893	.3826
		2.0	-.10000	.12758	.719	-.4369	.2369
Average loan balance per GNI	1.0	2.0	.14528	.11847	.459	-.1675	.4581
		3.0	-.17250	.15057	.504	-.5701	.2251
	2.0	1.0	-.14528	.11847	.459	-.4581	.1675
		3.0	-.31778	.13143	.074	-.6648	.0292
	3.0	1.0	.17250	.15057	.504	-.2251	.5701
		2.0	.31778	.13143	.074	-.0292	.6648
Deposit to assets ratio	1.0	2.0	.14972	.06401	.085	-.0193	.3187

		3.0	-.03583	.08135	.899	-.2506	.1790
	2.0	1.0	-.14972	.06401	.085	-.3187	.0193
		3.0	-.18556	.07101	.053	-.3731	.0019
	3.0	1.0	.03583	.08135	.899	-.1790	.2506
		2.0	.18556	.07101	.053	-.0019	.3731
LnVoluntarysavtoloan	1.0	2.0	1.16875*	.37068	**.019**	.1900	2.1475
		3.0	-.67987	.47113	.349	-1.9239	.5641
	2.0	1.0	-1.16875*	.37068	**.019**	-2.1475	-.1900
		3.0	-1.84862*	.41124	**.002**	-2.9345	-.7628
	3.0	1.0	.67987	.47113	.349	-.5641	1.9239
		2.0	1.84862*	.41124	**.002**	.7628	2.9345
Equity to Assets ratio	1.0	2.0	-.14417*	.03942	**.008**	-.2483	-.0401
		3.0	-.01083	.05010	.975	-.1431	.1215
	2.0	1.0	.14417*	.03942	**.008**	.0401	.2483
		3.0	.13333*	.04373	**.024**	.0179	.2488
	3.0	1.0	.01083	.05010	.975	-.1215	.1431
		2.0	-.13333*	.04373	**.024**	-.2488	-.0179
Debt to equity ratio	1.0	2.0	1.59528*	.41835	**.006**	.4907	2.6999
		3.0	.21417	.53171	.915	-1.1898	1.6181
	2.0	1.0	-1.59528*	.41835	**.006**	-2.6999	-.4907
		3.0	-1.38111*	.46411	**.027**	-2.6066	-.1556
	3.0	1.0	-.21417	.53171	.915	-1.6181	1.1898
		2.0	1.38111*	.46411	**.027**	.1556	2.6066
LnDonationtoassets	1.0	2.0	-.92444	.60358	.309	-2.5182	.6693
		3.0	1.89960	.76714	.067	-.1260	3.9252
	2.0	1.0	.92444	.60358	.309	-.6693	2.5182
		3.0	2.82404*	.66961	**.003**	1.0560	4.5921
	3.0	1.0	-1.89960	.76714	.067	-3.9252	.1260
		2.0	-2.82404*	.66961	**.003**	-4.5921	-1.0560
BOLD*. The mean difference is significant at the 0.05 level.							

Annex table 14: Ranks of different Affiliations based categories of MFIs			
1: Gov't-backed MFIs; 2: NGO-backed MFIs; and 3: Investors' owned MFIs		N	Mean Rank
Yield-n	1.0	4	**3.38**
	2.0	9	8.94
	3.0	3	14.00
	Total	16	
Total Expenses to loan Ratio	1.0	4	**2.50**
	2.0	9	10.11
	3.0	3	11.67
	Total	16	
Portfolio at Risk>90 days	1.0	4	**6.88**
	2.0	9	8.28
	3.0	3	11.33
	Total	16	
Return on Assets	1.0	4	**10.50**
	2.0	9	8.11
	3.0	3	7.00
	Total	16	
Return on Equity	1.0	4	**11.00**
	2.0	9	8.11
	3.0	3	6.33
	Total	16	
Operational self-sufficiency	1.0	4	**12.00**
	2.0	9	7.78
	3.0	3	6.00
	Total	16	
Financial self-sufficiency	1.0	4	**11.00**
	2.0	9	8.11
	3.0	3	6.33
	Total	16	
Gross loan portfolio	1.0	4	**14.50**
	2.0	9	7.00
	3.0	3	5.00
	Total	16	
Number of Active borrowers	1.0	4	**14.50**
	2.0	9	7.67
	3.0	3	3.00
	Total	16	
Percentage of Women borrower	1.0	4	7.25
	2.0	9	**9.89**

	3.0	3	6.00
	Total	16	
Average loan balance per GNI	1.0	4	10.13
	2.0	9	**6.39**
	3.0	3	12.67
	Total	16	
Voluntary savings	1.0	4	**14.50**
	2.0	9	6.89
	3.0	3	5.33
	Total	16	
Loan to assets ratio	1.0	4	8.75
	2.0	9	**9.78**
	3.0	3	4.33
	Total	16	
Non-deposit liabilities to loan	1.0	4	7.75
	2.0	9	**9.06**
	3.0	3	7.83
	Total	16	
Deposit to assets ratio	1.0	4	**12.00**
	2.0	9	5.83
	3.0	3	11.83
	Total	16	
Voluntary savings to loan ratio	1.0	4	10.88
	2.0	9	5.33
	3.0	3	**14.83**
	Total	16	
Equity to Assets ratio	1.0	4	3.75
	2.0	9	**12.00**
	3.0	3	4.33
	Total	16	
Debt to equity ratio	1.0	4	13.25
	2.0	9	**5.00**
	3.0	3	12.67
	Total	16	
Donation to assets ratio	1.0	4	7.63
	2.0	9	11.06
	3.0	3	**2.00**
	Total	16	

BOLD* refers to the better achievements based on the indicators definitions and interpretations

Annex table 15: One-Way ANOVA and Kurskal Wallis test results of Loan portfolio size based categories of MFIs (Large, Medium and Small)

ANOVA							Kruskal Wallis Test		
Performance indicators		Sum of Squares	df	Mean Square	F	Sig.	**Chi-Square**	**df**	**Asymp. Sig.**
LnGrossloan	Between Groups	123.889	2	61.944	88.381	**.000**			
	Within Groups	9.111	13	.701					
	Total	133.000	15						
LnActiveborrower	Between Groups	98.990	2	49.495	60.128	**.000**			
	Within Groups	10.701	13	.823					
	Total	109.692	15						
LnVoluntarysaving	Between Groups	122.020	2	61.010	39.389	**.000**			
	Within Groups	20.136	13	1.549					
	Total	142.155	15						
LnYield	Between Groups	2.619	2	1.309	17.650	**.000**			
	Within Groups	.964	13	.074					
	Total	3.583	15						
Total Expenses to loan ratio							10.393	2	**.006**
Portfolio at Risk>90 days	Between Groups	.003	2	.001	3.871	**.048**			
	Within Groups	.004	13	.000					
	Total	.007	15						
Adjusted Return on Assets							7.132	2	**.028**
Adjusted Return on equity							6.416	2	**.040**

Operational self-sufficiency	Between Groups	2.222	2	1.111	8.499	**.004**			
	Within Groups	1.699	13	.131					
	Total	3.921	15						
Financial self-sufficiency							7.734	2	**0.025**
Loan to assets ratio							7.047	2	**.030**
Percentage of Women borrower	Between Groups	.050	2	.025	.703	.513			
	Within Groups	.464	13	.036					
	Total	.514	15						
Average loan balance per GNI	Between Groups	.023	2	.011	.207	.816			
	Within Groups	.722	13	.056					
	Total	.745	15						
Deposit to assets ratio	Between Groups	.103	2	.051	4.313	**.037**			
	Within Groups	.154	13	.012					
	Total	.257	15						
Non-deposit to loan liabilities							1.641	2	.440
LnVoluntarysavtoloan	Between Groups	8.696	2	4.348	10.396	**.002**			
	Within Groups	5.437	13	.418					
	Total	14.134	15						
Equity to Assets ratio	Between Groups	.011	2	.005	.577	.575			
	Within Groups	.122	13	.009					
	Total	.133	15						
Debt to equity ratio	Between Groups	2.096	2	1.048	1.034	.383			

	Within Groups	13.183	13	1.014		
	Total	15.280	15			
LnDonationtoassets	Between Groups	1.476	2	.738	.323	.730
	Within Groups	29.726	13	2.287		
	Total	31.202	15			

BOLD* The mean difference is significant at the 0.05 level.

Annex table 16: Multiple Comparisons of means of loan portfolio based categories of MFIs

Tukey HSD ; 1: Large MFIs; 2: Medium MFIs and 3: small MFIs

Performance Indicators			Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
LnGrossloan	1.0	2.0	3.53922*	.46577	**.000**	2.3094	4.7690
		3.0	7.75583*	.59198	**.000**	6.1927	9.3189
	2.0	1.0	-3.53922*	.46577	**.000**	-4.7690	-2.3094
		3.0	4.21661*	.57771	**.000**	2.6912	5.7420
	3.0	1.0	-7.75583*	.59198	**.000**	-9.3189	-6.1927
		2.0	-4.21661*	.57771	**.000**	-5.7420	-2.6912
LnActiveborrower	1.0	2.0	3.44223*	.50477	**.000**	2.1094	4.7750
		3.0	6.84413*	.64155	**.000**	5.1502	8.5381
	2.0	1.0	-3.44223*	.50477	**.000**	-4.7750	-2.1094
		3.0	3.40190*	.62609	**.000**	1.7488	5.0550
	3.0	1.0	-6.84413*	.64155	**.000**	-8.5381	-5.1502
		2.0	-3.40190*	.62609	**.000**	-5.0550	-1.7488
LnVoluntarysaving	1.0	2.0	5.01386*	.69240	**.000**	3.1856	6.8421
		3.0	6.79115*	.88003	**.000**	4.4675	9.1148
	2.0	1.0	-5.01386*	.69240	**.000**	-6.8421	-3.1856
		3.0	1.77729	.85882	.135	-.4904	4.0449
	3.0	1.0	-6.79115*	.88003	**.000**	-9.1148	-4.4675

		2.0	-1.77729	.85882	.135	-4.0449	.4904
LnYield	1.0	2.0	-.30308	.15153	.151	-.7032	.0970
		3.0	-1.13921*	.19260	**.000**	-1.6478	-.6307
	2.0	1.0	.30308	.15153	.151	-.0970	.7032
		3.0	-.83614*	.18796	**.002**	-1.3324	-.3399
	3.0	1.0	1.13921*	.19260	**.000**	.6307	1.6478
		2.0	.83614*	.18796	**.002**	.3399	1.3324
Portfolio at Risk>90 days	1.0	2.0	-.02095	.01020	.139	-.0479	.0060
		3.0	-.03333	.01297	.057	-.0676	.0009
	2.0	1.0	.02095	.01020	.139	-.0060	.0479
		3.0	-.01238	.01265	.603	-.0458	.0210
	3.0	1.0	.03333	.01297	.057	-.0009	.0676
		2.0	.01238	.01265	.603	-.0210	.0458
Operational self-sufficiency	1.0	2.0	.23262	.20115	.498	-.2985	.7637
		3.0	1.04167*	.25565	**.003**	.3666	1.7167
	2.0	1.0	-.23262	.20115	.498	-.7637	.2985
		3.0	.80905*	.24949	**.016**	.1503	1.4678
	3.0	1.0	-1.04167*	.25565	**.003**	-1.7167	-.3666
		2.0	-.80905*	.24949	**.016**	-1.4678	-.1503
Financial self-sufficiency	1.0	2.0	.08738	.13657	.801	-.2732	.4480
		3.0	.69500*	.17357	**.004**	.2367	1.1533
	2.0	1.0	-.08738	.13657	.801	-.4480	.2732
		3.0	.60762*	.16939	**.009**	.1604	1.0549
	3.0	1.0	-.69500*	.17357	**.004**	-1.1533	-.2367
		2.0	-.60762*	.16939	**.009**	-1.0549	-.1604
Percentage of Women borrower	1.0	2.0	.00881	.10509	.996	-.2687	.2863
		3.0	-.13833	.13356	.569	-.4910	.2143
	2.0	1.0	-.00881	.10509	.996	-.2863	.2687
		3.0	-.14714	.13035	.514	-.4913	.1970
	3.0	1.0	.13833	.13356	.569	-.2143	.4910

		2.0	.14714	.13035	.514	-.1970	.4913
Average loan balance per GNI	1.0	2.0	.07381	.13116	.842	-.2725	.4201
		3.0	.08667	.16670	.863	-.3535	.5268
	2.0	1.0	-.07381	.13116	.842	-.4201	.2725
		3.0	.01286	.16268	.997	-.4167	.4424
	3.0	1.0	-.08667	.16670	.863	-.5268	.3535
		2.0	-.01286	.16268	.997	-.4424	.4167
Deposit to assets ratio	1.0	2.0	.10190	.06065	.249	-.0582	.2620
		3.0	-.11333	.07708	.336	-.3169	.0902
	2.0	1.0	-.10190	.06065	.249	-.2620	.0582
		3.0	-.21524*	.07523	**.033**	-.4139	-.0166
	3.0	1.0	.11333	.07708	.336	-.0902	.3169
		2.0	.21524*	.07523	**.033**	.0166	.4139
LnVoluntarysavtoloan	1.0	2.0	1.15967*	.35981	**.017**	.2096	2.1097
		3.0	-.71168	.45731	.298	-1.9192	.4958
	2.0	1.0	-1.15967*	.35981	**.017**	-2.1097	-.2096
		3.0	-1.87134*	.44629	**.003**	-3.0497	-.6930
	3.0	1.0	.71168	.45731	.298	-.4958	1.9192
		2.0	1.87134*	.44629	**.003**	.6930	3.0497
Equity to Assets ratio	1.0	2.0	-.05786	.05389	.546	-.2001	.0844
		3.0	-.02833	.06849	.911	-.2092	.1525
	2.0	1.0	.05786	.05389	.546	-.0844	.2001
		3.0	.02952	.06684	.899	-.1470	.2060
	3.0	1.0	.02833	.06849	.911	-.1525	.2092
		2.0	-.02952	.06684	.899	-.2060	.1470
Debt to equity ratio	1.0	2.0	.78476	.56026	.369	-.6946	2.2641
		3.0	.21333	.71208	.952	-1.6669	2.0935
	2.0	1.0	-.78476	.56026	.369	-2.2641	.6946
		3.0	-.57143	.69492	.696	-2.4063	1.2635
	3.0	1.0	-.21333	.71208	.952	-2.0935	1.6669

		2.0	.57143	.69492	.696	-1.2635	2.4063
LnDonationtoassets	1.0	2.0	.15514	.84128	.981	-2.0662	2.3765
		3.0	.84106	1.06925	.717	-1.9822	3.6644
	2.0	1.0	-.15514	.84128	.981	-2.3765	2.0662
		3.0	.68592	1.04349	.792	-2.0693	3.4412
	3.0	1.0	-.84106	1.06925	.717	-3.6644	1.9822
		2.0	-.68592	1.04349	.792	-3.4412	2.0693
BOLD* The mean difference is significant at the 0.05 level.							

Annex table 17: Mean Ranks of loan portfolio size based categories of MFIs			
MFI categories based on loan portfolio size: 1: Large MFIs; 2: Medium MFIs and 3: small MFI		N	Mean Rank
Yield	1.0	6	**4.83**
	2.0	7	8.86
	3.0	3	15.00
	Total	16	
Total Expenses to loan Ratio	1.0	6	**4.33**
	2.0	7	9.29
	3.0	3	15.00
	Total	16	
Portfolio at Risk>90 days	1.0	6	**5.17**
	2.0	7	9.36
	3.0	3	13.17
	Total	16	
Return on Assets	1.0	6	**10.67**
	2.0	7	9.43
	3.0	3	2.00
	Total	16	
Return on Equity	1.0	6	**10.92**
	2.0	7	9.00
	3.0	3	2.50
	Total	16	
Operational self-sufficency	1.0	6	**11.17**
	2.0	7	9.00
	3.0	3	2.00
	Total	16	
Financial self-sufficiency	1.0	6	**11.00**
	2.0	7	9.14
	3.0	3	2.00
	Total	16	
Total Assets	1.0	6	13.50
	2.0	7	7.00
	3.0	3	2.00
	Total	16	
Gross loan portfolio	1.0	6	**13.50**
	2.0	7	7.00
	3.0	3	2.00
	Total	16	

Number of Active borrowers	1.0	6	**13.50**
	2.0	7	7.00
	3.0	3	2.00
	Total	16	
Percentage of Women borrower	1.0	6	8.33
	2.0	7	7.86
	3.0	3	**10.33**
	Total	16	
Average loan outstanding	1.0	6	9.92
	2.0	7	9.36
	3.0	3	3.67
	Total	16	
Average loan balance per GNI	1.0	6	10.00
	2.0	7	**7.29**
	3.0	3	8.33
	Total	16	
Voluntary savings	1.0	6	**13.50**
	2.0	7	6.86
	3.0	3	2.33
	Total	16	
Loan to assets ratio	1.0	6	9.50
	2.0	7	**10.43**
	3.0	3	2.00
	Total	16	
Non-deposit liabilities to loan	1.0	6	7.67
	2.0	7	**10.14**
	3.0	3	6.33
	Total	16	
Deposit to assets ratio	1.0	6	9.58
	2.0	7	5.71
	3.0	3	**12.83**
	Total	16	
Deposit to Gross loan portfolio	1.0	6	8.67
	2.0	7	5.57
	3.0	3	**15.00**
	Total	16	
Voluntary savings to loan ratio	1.0	6	9.92
	2.0	7	4.93
	3.0	3	**14.00**
	Total	16	
Equity to Assets	1.0	6	6.67

ratio	2.0	7	**10.36**
	3.0	3	7.83
	Total	16	
Debt to equity ratio	1.0	6	10.33
	2.0	7	**6.71**
	3.0	3	9.00
	Total	16	
Donation to assets ratio	1.0	6	9.08
	2.0	7	8.79
	3.0	3	**6.67**
	Total	16	

BOLD* refers to the better achievements based on the variables definitions and interpretations