

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
SCHOOL OF COMMERCE



**Effect of Corporate Governance on Financial
Performance of Microfinance Institutions in Ethiopia**

**A Research Project Submitted to
Office of Graduate Studies in Partial fulfillment of the requirement for
Degree of Masters in Business Leadership**

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STATEMENT OF THE AUTHOR

I declare that this research project is my authentic work and that all sources of materials used have been properly acknowledged. It has been submitted in Partial fulfillment of the requirement for Degree of Masters in Business Leadership in Addis Ababa University, School of Commerce. The author declares that this research is not submitted to any other institution for the award of any academic degree, diploma, or certificate.

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STATEMENT OF CERTIFICATION

This is to certify that this research project, prepared by Berhanu Urgessa, entitled “Effect of Corporate Governance on Microfinance Institutions Financial Performance in Ethiopia” submitted in Partial fulfillment of the requirement for Degree of Masters in Business Leadership complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

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Abstracts

The microfinance sector in Ethiopia is not yet proved to be a profitable business that attracts commercial investors. Most of the shareholders of the MFIs are regional governments, associations and NGO's. Recently directive has been issued, which allow MFIs to transform to banks that give MFIs an opportunity to move to the trajectory of full commercialization with the argument of profit motive to be self-sustainable and address other mission. This indicates that commercialization is currently big concern of MFIs in Ethiopia. Thus, the objective of this research project was to identify the effect of corporate governance on financial performance of MFIs in Ethiopia. Explanatory research design was employed to examine the effect of corporate governance practices such as board size, board sub-committee, numeration, and competence of boards and CEO on financial performances (measured by ROA) of MFIs. From the total 34 registered members of AEMFIs, three years data of 25 MFIs taken from secondary and primary source was analyzed by using descriptive statics, correlation analysis and regression analysis. The result of regression analysis reveals that out of six corporate governance variables and one control variable identified for the study, three explanatory variables have found significant effect on financial performance of MFIs in Ethiopia. Effect of board of directors (BoDs) member size, educational level of boards of BoDs, industry experience of Chief Executive Officer (CEO) on ROA is positive but not significant. Numerations for BoDs, CEO education level and MFIs Scale have positive effect on ROA and statically significant at 5%, 5% and 1% level. The result also reveals that the overall fixed effect regression model is significant at 1% level and adjusted R square is 0.504 implies that the over effect of the corporate governance variables included in the study is significant and jointly explain 50.4% of financial performance of MFIs in Ethiopia. As a result, due attention need to be given for these corporate governance practices to attain required level financial performance and insure sustainability through commercialization.

Keywords: Microfinance, corporate governance practices, financial performance, Ethiopia

Table of Contents

Contents	page
ACKNOWLEDGEMENTS	i
Abstracts	ii
List of Table	v
List of acronyms	vi
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study	1
1.2 Statement of the problem	2
1.3 Objective of the Study	4
1.4 Basic Research Questions	4
1.5 Definition of Terms	4
1.5.1 Conceptual definition	4
1.5.2 Operational definition	5
1.6 Significance of the study	5
1.7 Scope of the study	5
1.8 Limitations of the study	5
1.9 Organization of the Study	6
CHAPTER TWO	7
REVIEW OF RELATED LITERATURE	7
2.1 Theoretical Literature Review	7
2.1.1 Concept of Microfinance	7
2.1.2 Concept of Corporate Governance	10
2.1.3 Microfinance and Corporate governance	11
2.1.4 Concept of MFIs' Performance Measurement	13
2.2 Empirical Literature Review	14
2.2.1 Corporate Governance and Performance of MFIs	14
2.2.2 Impact of Corporate Governance on Performance of MFIs in Ethiopia	16
2.2.3 Impact of Corporate Governance on Performance of others Firms in Ethiopia	17

2.3 Conceptual Framework	19
CHAPTER THREE	20
RESEARCH METHODOLOGY	20
3.1 Research Approach	20
3.2 Research Design	20
3.3 Population and Sampling	20
3.3.1 Target Population	20
3.3.2. Sampling Frame.....	20
3.3.3. Sample Size	21
3.4. Types and Sources of Data.....	21
3.5 Validity and Reliability	21
3.6 Research Ethics	21
3.7 Data analysis and Model Specification	21
3.8 Description of Variables.....	23
CHAPTER FOUR.....	25
RESULTS AND DISCUSSION.....	25
4.1 Descriptive Statistics Result.....	25
4.2 Correlation Analysis.....	28
4.3 Regression Analysis	29
CHAPTER FIVE	33
SUMMARY, CONCLUSIONS AND IMPLICATIONS	33
5.1 Summary and Conclusion	33
5.2 Implications	35
6. LIST OF REFERENCES	36
7. APPENDICES	40
Appendix 1: Questionnaire.....	40
Appendix 2: Multicollineratiy test (VIF).....	45

List of Tables

	Page
Table1. Board size, boards' education, numeration and ROA of sampled MFIs	32
Table 2. Sub-committees established in sampled MFIs.....	33
Table 3. CEO educational qualifications.....	33
Table 4. CEO industry experience.....	33
Table5. MFI classification by scale.....	34
Table 6: Correlation coefficient.....	35
Table7: Fixed effect regression result.....	36

LIST OF ACRONYMS AND ABBREVIATIONS

AEMFI	Association of Ethiopian Microfinance Institutions
BoD	Boards of Directors
CEO	Chief Executive Officer
CG	Corporate Governance
ETB	Ethiopian Birr
FDRE	Federal democratic Republic of Ethiopia
MFI	Micro Finance Institution
NBE	National Bank of Ethiopia
NGO	Non-government Organization
ROA	Return on Asset
SPSS	Statistical Packages for Social Science
VIF	Variable Inflated Factor

CHAPTER ONE

INTRODUCTION

This chapter deals with the overall nature of research work. It consists of background of the study, statement of the problem, objective of the study, basic research questions, definition of terms, significance of the study, scope of the study and limitation of the study.

1.1 Background of the Study

Governance is a process by which a board of directors, through management, guides an institution in fulfilling its corporate mission and protects the institution's resource over time. Fundamental to good governance is the ability of individual directors to work in partnership to balance strategic and operational responsibilities. Effective governance occurs when a board provides proper guidance to management regarding the strategic direction for the institution, and oversees management's efforts to move in this direction. The interplay between board and management centers on this relationship between strategy and operation, both of which are essential for the successful evolution of the institution (Rachel *et al*, 1998). Corporate governance has become a popular discussion topic in developed and developing countries. The widely held view that corporate governance determines firm performance and protects the interests of shareholders has led to increasing global attention (Eyob, 2016).

In Microfinance Institutions (MFIs) industry, governance has assumed increasing importance for several reasons. According to Helms (2006) governance is about achieving corporate goals. MFIs have double bottle-lines. The first one is meeting social mission that is increasing outreach and providing finance services to large numbers of low income members of the society, and the second one is commercial mission to provide those services in sustainable manner. Ensuring these missions requires proper governance. According to Mersland & Strom, (2007) good corporate governance is deemed instrumental in strengthening sustainability of MFIs as well as increasing outreach.

The Federal Democratic Republic of Ethiopia's (FDRE) Proclamation No. 40/1996 was the first regulatory framework for microfinance business in Ethiopia. In the Proclamation,

microfinance business is defined as “an activity of extending credit, in cash or in kind, to peasant farmers or urban small entrepreneurs”. This proclamation was replaced by another proclamation cited as the “Micro-Financing Business Proclamation No. 626/2009”, which came into force from May 2009. According to the new proclamation, purpose of MFIs shall be to collect deposits and extend credit to rural and urban farmers and people engaged in other similar activities as well as micro and small scale rural and urban entrepreneurs (FDRE proclamation No. 40/1996 and FDRE proclamation No. 626/2009).

Ethiopian legal framework recognizes the hybrid nature of MFIs. In one hand, MFIs are formed just like any commercial banks as profit making private company subject to commercial law. And in the other hand, the MFIs are allowed to solicit and receive grants to run its business, and exempted from profit tax unless dividend is distributed to shareholders (NBE 2019).

Based on the nature of promoter and major shareholding, MFIs in Ethiopia has categorized in to three such as those owned by regional government, by NGOs and by private shareholders. The nature of the promoters has implication on the balance between social objectives and commercial objective (*ibid*).

1.2 Statement of the problem

The main challenge of MFIs remains their survival, and to meet this challenge, MFIs need to be competitive. The poor performance of MFIs is usually attributed to their decision-making and operational processes. The governance of MFIs is therefore identified as one of their main risks. Despite this, governance is still little explored in these institutions and empirical studies find a weak relationship between classical governance mechanisms and MFI performance, especially for the MFIs situated in Africa (Thrikawala et al., 2013a) as cited by Léopold D et al (2017).

In Ethiopia the provision of microfinance service has been carried out by donor funds until the first licensing and supervision of microfinance business was issued in 1996. This practice had weakened the development of commercialization of microfinance services (Belete 2015).

The current regulatory framework requires microfinance institutions to be formed as share companies (Microfinance business proclamation NO. 626/2009). However, the microfinance sector in Ethiopia is not yet proved to be a profitable business that attracts commercial investors rather than social investors. As a result, most of the shareholders of the MFIs are regional governments, associations and NGO's.

Yet these microfinance institutions have made remarkable progress over the past decades, in providing financial services for poor households (Ahma, 2012) as cited in (Asefa, 2014)

At moment, however, commercialization of microfinance with the argument of profit motive to be self-sustainable and addressing social mission would be the main area of concern. To this end, though some Ethiopian MFIs have proven to have self-sustainable position while pursuing the social objective, self-sustainability of some MFIs seem to be doubtful as they are still dependent on irregular donor or government subsidies though assumed to have the same operating environment such as legal, regulatory and macroeconomic environments. Besides, the flow of private investors to the sector is very limited (Asefa, 2014).

National bank of Ethiopia (NBE) directive incorporates provisions relevant to the governance of microfinance institution. The directive put a minimum requirement for persons with significant influence in Microfinance Institution what the directive calls fit and proper criteria. The fit and proper criteria include education, experience and age of Board of Directors (BODs) and Chief Executive Officer (CEO) (NBE directive number MFI/21/2012).

Although there are few studies conducted on the effect of corporate governance performance of microfinance in Ethiopia, they have gaps in address all relevant corporate governance variables and lacks consistence in its findings. For instance, Eyob (2016) found that board size has negative and significant relationship with financial performance of MFIs in Ethiopia whereas Belete (2015) had the opposite. Besides, NBE (2020) have issued directive that allow MFIs to transform to banks, that give MFIs an opportunity to move to the trajectory of full commercialization and at the same time providing microfinance services. This indicates that commercialization is currently big concern of MFIs in Ethiopia.

Thus, this research project was intended to identify the effect of corporate governance on financial performance of MFIs in Ethiopia.

1.3 Objective of the Study

The general objective of the study was to assess the effect of corporate governance on financial performance of MFIs in Ethiopia. Specific objectives were:

1. To assess financial performance level of selected MFIs in Ethiopia
2. To examine the corporate governance mechanisms in MFIs
3. To identify the effect of corporate governance practices such as board size, board subcommittee, board numeration, board competence and CEO competence on financial performance of MFIs
4. To suggest appropriate corporate governance mechanisms to improve performance level of MFIs

1.4 Basic Research Questions

1. What is the financial performance level of selected MFIs in Ethiopia looks like?
2. Do MFIs in Ethiopia are exercising effective corporate governance?
3. What is the effect of corporate governance practices on financial performance (measured in profitability) of MFIs?

1.5 Definition of Terms

1.5.1 Conceptual definition

Commercialization of microfinance is defined 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).

1.5.2 Operational definition

As indicated in literatures financial performance of MFIs can be measured by number standardized indicators, but financial performance in this study refers only profitability in terms of return on asset.

1.6 Significance of the study

As explained above, demand for commercial orientation of microfinance institutions is highly increasing in Ethiopia recently. This study is, therefore, provide practical information on effective of corporate governance on performance level of MFIs for players in the industry, regulatory body and stakeholders working to promote the sub-sector. It is expected to stimulate interest of practitioners to exercise effective corporate governance mechanisms for better financial performance of their MFI.

It is also believed to bring an insight on how corporate governance mechanisms can influence performance level of MFIs in Ethiopia context, which is not addressed very well so far.

1.7 Scope of the study

Population of the study will be registered members of Association Ethiopian Microfinance Institutions. Due time constraint, only three years data of 25 MFIs was considered in the study. Profitability in terms of adjusted return on asset was taken as financial performance indicator of MFIs.

1.8 Limitations of the study

The study took only return on asset as financial performance indicator of microfinance institutions. It ignores other indicators of finance performance measurement that may affect the result in some extents.

1.9 Organization of the Study

The study is organized in to five chapters. The first chapter is introduction that covers the background of the study, statement of the problem, objectives of the study, the research questions, and definition of terms, significance of the study, scope of the study and limitation of the study. In the second chapter literatures review is covered. The third chapter present the research methodology used in the study. In the fourth chapter, results and discussion is provided. The final chapter is summary of the findings, conclusions and implications.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Theoretical Literature Review

2.1.1 Concept of Microfinance

Microfinance is defined as the provision of financial services, mostly savings and credit to the poor and low income households that otherwise don't have access to conventional commercial banks (Rock et al., 1998). According to Robinson (2001) Microfinance is financial services primarily credit and savings provided to people who engaged in small scale enterprises. It was first declared as a way to unleash the productive capacities of poor people dependent on self-employment (Hulme and Mosley 1996). According to Yunus (2016), microfinance would transform customers' businesses by providing capital; that would increase borrowers' earnings and ultimately eliminate poverty. Microfinance has been feted for introducing innovations in credit contracts, particularly group lending and installment-lending. More broadly, microfinance demonstrates a new mode of development intervention, one that displaces governments as central actors and turns to market-mechanisms to deliver services through a range of institutions that integrate social and financial goals (Cull and Morduch 2017).

Importance of microfinance has been recognized worldwide not only as a tool to fight poverty but also to insure peace when Mohammed Yunus, founder of Grameen Bank in Bangladeshi, was granted Nobel Prize in October 2006. "Lasting peace cannot be achieved unless large population groups find ways in which to break out of poverty. Microfinance is one such means. Development from below also serves to advance democracy and human rights", were the words to announce the Prize (Leila Morkadem 2009).

Key Principles of Microfinance

Poor people need a variety of financial services, not just loans: Microfinance is not limited to Microcredit. Like everyone else, the poor need a range of financial services that are convenient, flexible, and affordable. Depending on circumstances, they want not only loans, but also savings, insurance, and cash transfer services.

Microfinance is a powerful instrument against poverty: Access to sustainable financial services enables the poor to increase incomes, build assets, and reduce their vulnerability to external shocks. Microfinance allows poor households to move from everyday survival to planning for the future, investing in better nutrition, improved living conditions, and children's health and education.

Financial sustainability is necessary to reach significant numbers of poor people: Sustainability is the ability of a microfinance provider to cover all of its costs. It allows the continued operation of the microfinance provider and the ongoing provision of financial services to the poor. Achieving financial sustainability means reducing transaction costs, offering better products and services that meet client needs, and finding new ways to reach the unbanked poor.

Microfinance is about building permanent local financial institutions: The institutions should be able to mobilize and recycle domestic savings, extend credit, and provide a range of services. Dependence on funding from donors and governments including government-financed development banks will gradually diminish. These institutions need to attract domestic savings, recycle those savings into loans, and provide other services. Microfinance should not be limited to NGOs or credit unions, let alone projects. Institutions should aim at commercial sustainability, offering products based on sound market research, rather than relying upon subsidies and government support. Banking for the poor does not mean poor banking.

Microfinance institutions should be able to charge interest rates that cover their costs: It costs much more to make many small loans than a few large loans. Unless micro lenders can charge interest rates that are well above average bank loan rates, they cannot cover their costs. Their growth will be limited by the scarce and uncertain supply soft money from donors or governments. At the same time, a micro lender should not use high interest rates to make borrowers cover the cost of its own inefficiency.

Microcredit is not always the answer: Microcredit is not the best tool for everyone or every situation. Destitute and hungry people with no income or means of repayment need other kinds of support before they can make good use of loans. In many cases, other tools will alleviate poverty better for instance, small grants, employment and training programs, or infrastructure improvements. Where possible, such services should be coupled with building savings.

The role of government is to enable financial services, not to provide them directly: National governments should set policies that stimulate financial services for poor people at the same time as protecting deposits. Governments need to maintain macroeconomic stability, avoid interest rate caps, and refrain from distorting markets with subsidized, high-default loan programs that cannot be sustained. They should also clamp down on corruption and improve the environment for micro-businesses, including access to markets and infrastructure. In special cases where other funds are unavailable, government funding may be warranted for sound and independent microfinance institutions.

Microfinance works best when it measures and discloses its Performance: Financial information: such as interest rates, loan repayment, and cost recovery. Social information such as number of clients reached and their poverty level. Donors, investors, banking supervisors, and customers need this information to judge their cost, risk, and return (*ibid*).

The industry is currently growing rapidly and how they are governed therefore matters (Kyereboah-Coleman & Biekpe, 2005). Stakeholders in the industry have recognized that good governance is an important element in the success of the MFIs (Campion, 1998); (Rock, 1998) as cited by Chenuos et al (2014).

2.1.2 Concept of Corporate Governance

According to agency theory, conflict of interest between agent (manager) and principal (shareholders) could be reduced through good corporate governance. The theory argue that the agent strive to achieve his personal goals at the expense of the principal. Mangers are mostly motivated by their own personal interests and benefits, and work to maximize their own personal benefit rather than considering shareholders' interests and maximizing shareholders wealth. To reduce agency problem there must be better monitoring and controlling mechanisms which helps to ensure that managers pursue the interests of shareholders rather than only their own interests, which possible through good corporate practices (Habbash 2010).

Fama & Jensen (1983) as cited by (Habbash 2010) argue that shareholders monitor and control managers through their representatives such as board of directors. Boards of directors are considered as an important device to protect shareholders from being exploited by managers and help to effectively control managers when they try to maximize their self-interest at the expense of the company's profitability and as consequence good corporate governance mechanisms enhance profitability. Thus, according to this argument, corporate governance mechanisms are designed to align the interest of owners and managers, constrained the opportunistic behaviors of managers and protect shareholder interests, generally to solve agency problem.

Stockholders theory in the other hand extends the narrow focus of agency theory on shareholders' interest to stakeholders to take into account the interests of many different groups and individuals, including interest groups related to social and ethical considerations. According to this theory good corporate governance helps to maximize the mutual interest of all stockholders. Moreover, corporate governance enables the firm to consider about all stockholders such as the customers, employee, shareholders, social and can create a stable environment for sustainable development (Habbash 2010).

Resource dependency theory also explained the importance of corporate governance. According to resource dependency theory, the role of board of directors is related to providing access to resources needed by the firm. The theory explained that the primary function of the board of directors is to provide resources to the firm and directors are viewed as an important resource to

the firm. Directors bring resources to the firm, such as information, skills, business expertise, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. The resource based approach notes that the board of directors could support the management in areas where in-firm knowledge is limited or lacking. The resource dependence model suggests that the board of directors could be used as a mechanism to form links with the external environment in order to support the management in the achievement of organizational goals (Abdullah and Valentine 2009) as cited by (Eyob 2016). Recently economists and management scholars tend to assign to boards the dual role of monitors and advisers of management. The composition of corporate boards is crucial to providing information for monitoring and counseling and to ensuring effective decision-making (Ferreira 2010).

According to Hilb (2008) corporate governance is a system by which companies are strategically directed, interactively managed and holistically controlled in an entrepreneurial and ethical way and in a manner appropriate to each particular context.

Hussien (2012) has also defined corporate governance as all issues related to ownership and control of the corporate property, the rights of shareholders and management, powers and responsibilities of the Board of Directors, disclosure and transparency of corporate information, the protection of interests of stakeholders that are not shareholders and enforcement of rights. According to this definition, corporate governance systems depend upon a set of institutions such as laws, regulations, contract enforcement and norms that create self-governing firms as the central element of a competitive market economy.

2.1.3 Microfinance and Corporate governance

In the microfinance field, governance has assumed increasing importance for several reasons. First, as MFIs grow in their outreach, the size of their assets, as reflected in their portfolio, also grows to considerable size. Ensuring effective management of this growth requires added input and involvement by a board. Additionally, increasing numbers of MFIs are becoming regulated and assuming the responsibilities and challenges of a regulated entity. Capturing deposits from savers and investors is perhaps their most important challenge and requires the greatest oversight. Finally, MFIs are operating in increasingly competitive markets, and maintaining or increasing market share has become an important component of their strategic objective (Rachel et al 1989).

According to Rachel et al (1989), in microfinance field governance issues pertinent to its operations are the dual mission of MFIs, ownership of MFIs, the fiduciary responsibility of the board, and Risk assessment in MFIs.

A dual Mission: it implies balancing between social impact and financial objectives. As stated, MFIs originated, in most cases, with a dual mission that combines social and financial objectives. The social mission seeks to provide financial services to as many of the lowest income population as possible; the financial objective drives the organization to achieve financial self-sufficiency, which permits sustained service delivery without dependence on subsidies. MFIs face the difficult task of balancing social and financial objectives: reaching large numbers of low-income micro entrepreneurs while generating profits. In this context, the boards play a key role in ensuring that the MFI responds adequately to both objectives (Rachel et al (1989)).

Ownership of MFIs: The board of directors either consists of owners or represents the interests of owners. Aligning the interests of individual directors with the interests of the institution is key to realizing effective governance. Creating this alignment depends on understanding the issues associated with each of the four corporate structures of MFI such as public, nonprofit and for-profit. The specific corporate structure alone, however, does not in itself define effective governance (*ibid*).

Fiduciary Responsibility of MFIs: In general, the fiduciary responsibility of the board of any financial intermediary is considered greater than that required for other corporate entities. Protecting financial institutions and hence the financial system is a high priority for governments. Without solvent financial institutions, business, commerce, and the economy would become dysfunctional. Liquidity is essential for the deployment of a financial institution's product: money. Moreover, because of their high leverage ratio and impact on the payments system, financial institutions require more stringent internal controls, and more prudent external supervision and regulation, than do non-financial entities (*ibid*).

Risk assessment in MFIs: Providing financial services in general carries a set of risks that the board of directors must be able to assess in its role as corporate fiduciary (*ibid*).

In literature several variables relating to governance in microfinance are suggested. These include the structure of ownership, the characteristics of the board of directors and external

governance mechanisms. The question of ownership is closely linked to that of governance (Rock et al., 2001) as cited by Léopold D et al (2017). Many MFIs across the world operate as non-profit institutions (NGOs, associations, cooperatives or mutual benefit companies). As explained by the authors, In the case of NGOs, there is no owner of the capital. Their financial resources are granted by investors in the form of subsidies or concessional loans. In associations, cooperatives and mutual benefit companies, the owners are the members.

On the contrary, in profit-seeking MFIs, investors provide the capital. For efficient governance, Jensen (1993) suggests, among others, the holding of a significant number of shares by the managers and the members of the board of directors so that a certain convergence of interests with the shareholders would exist. This would allow their ownership structure to be clarified to set up an efficient governance mechanism that is expected to stimulate performance (*ibid*).

2.1.4 Concept of MFIs' Performance Measurement

There are two theories related to the analysis of performance of Microfinance Institutions. They are the welfarist theory and financial approach theory (Gustave 2012).

The welfarist theory: According to this theory, a microfinance institution is regarded to be performing well when it is able to reach the greatest number of the poor people and provides them with financial services at a low cost and measured by variables such as outreach and impact.

Financial approach theory: This second theory is an approach characterized by the will to liberalize financial markets. It completes with the first one by arguing that in order to evaluate performance of Microfinance Institutions, one has to combine the two theories using variables such as outreach and sustainability. According to this theory, a Microfinance Institution performs well whenever it bases itself on either financial outreach or financial sustainability. It consider financial variables to decide whether or not a Microfinance Institution is performing well (Worldbank, 1989) as cited by Gustave (2012).

According to Meyer (2002), there are two kind of sustainability we could observe in assessing MFIs performance: Loan recovery and profitability. According to this author, outreach and financial performance are complimentary; this is because as the number of client increases MFIs enjoy economies of scale and hence reduce costs which help them to financial performance.

2.2 Empirical Literature Review

2.2.1 Corporate Governance and Performance of MFIs

There have been researches conducted to examine the effect of corporate governance on performance of MFIs various countries.

Study was conducted by Chenuos *et al* (2014) to investigate the effect of corporate governance on Kenyan Microfinance institutions financial sustainability on ten MFIs taking data for the period of eleven years. The researchers were used explanatory research design and panel data analysis method to establish the causal effect relationship between corporate governance variables and the financial sustainability of the MFIs in Kenya. The study found that corporate governance characteristics such as CEO duality, board size, board composition and CEO gender have significant effect on financial sustainability of MFIs in Kenya.

Van Dang *et al* (2020) have also analyzed the relationship between corporate governance and financial performance of MFIs in Vietnam. The data was collected and involves 100 MFIs from Vietnam of three years from 2016 to 2018. The researchers constructed a firm-level index of corporate governance based on aspects of leadership and ownership structure. The study incorporated board size; board diversity with respect to gender, financial expertise, and local residency; CEO/chairman duality; female CEO; and shareholding ownership type. The authors examined the relationship between the governance index and measures of financial performance such as return on asset, return on equity, and operational self-sufficiency. A two-stage least squares estimation approaches was adopted with instrumental variables. Finally the researchers conclude that profitability and sustainability of MFIs improve with good governance practices and conversely that more profitable and sustainable MFIs have better governance systems.

Gustave (2012) has also conducted the impact of corporate governance on performances of MFIs in Rwanda. The researcher considered some of its components such as board size, board composition, non-CEO duality and the supervision of MFIs to assess the performance of MFIs. Using descriptive statistics like correlation calculations the relationship between corporate governance and performance of MFIs in was found. The researcher concluded that some

components of corporate governance have a correlation with the performance of MFIs in Rwanda and others have no correlation with the performance of MFIs. According to the researcher, the correlation of board size, board composition, supervision of MFIs with performance of MFIs was mixed. Unlike this, the researcher found that there is correlation between the non-CEO duality and the performance of MFIs in Rwanda.

Mersland (2007) has also conducted study to trace the relationship between performance and corporate governance in MFIs. The researcher used the panel data structure to take repeated observations on the dependent performance variables for up to four consecutive years, while the independent governance variables that were reported only once and thus assumed constant during the whole period. The relationship was estimated by random effects method, which allows the inclusion of all years. The study identified the effect of board characteristics, ownership type, competition and regulation on the MFI's financial performance and its outreach. The researcher indicated that split roles of CEO and chairman, a female CEO, and competition are important explanations. Larger board size decreases the average loan size while individual guaranteed loan increases it. No difference between nonprofit organizations and shareholder firms in financial performance and outreach was found the researcher.

Léopold D et al (2017) examined whether the effect of governance mechanisms on the performance of MFIs differs according to their legal status in the Cameroonian context.

The researchers based their study on the current micro-finance governance literature and on data collected by a questionnaire administered to a sample of 137 of one year data of Cameroonian MFIs. After the analysis, the researchers found two main results. Firstly, at the global level, very few mechanisms of governance had a significant effect on the performance of the MFIs. Secondly, a comparative analysis showed that the implementation of differentiated governance mechanisms according to the legal status of the MFI (cooperative and mutual benefit companies, nonprofit NGOs, and private companies and profit-seeking NGOs) improves their performance. They conclude that the mechanisms that affect performance are relatively different according to the category of MFI. they further concluded base on the result that the result consolidate the idea that the analysis of the impact of the mechanisms of governance on the performance of MFIs requires not only an approach that is specific to the sector, but also an approach that is adapted to the type of ownership (legal status).

In spite of the generally accepted notion that effective corporate governance enhances MFI performance, studies have also reported a negative relationship between corporate governance and MFI performance (Hutchinson, 2002).

2.2.2 Impact of Corporate Governance on Performance of MFIs in Ethiopia

Eyob (2016) has conducted study to analyze effects of corporate governance mechanisms on the performance of Ethiopian MFIs. The researcher have selected five MFIs to analyze the effect of six corporate governance variables (board size, educational qualification of boards, audit committee size, board gender diversity, business management experience of boards and industry specific experience of boards) on performance of MFIs measured using two variables (return on asset and return on equity) by using ten years panel data. The data was analyzed by using multiple linear regression models.

The result showed that board size, gender diversity and size of audit committee have negative and significant relationship with financial performance of MFIs whereas industry specific experience and educational qualification of the board have positive relationship. The study also found that the effect of business management experience of directors on performance is inconclusive.

In 2015 has also analyzed the impact of corporate governance on performance of MFIs in Ethiopia. The researcher collected seven years data from ten MFIs to analyze the effect of corporate governance variables (such as board size, board gender composition, board competency, board experience in the finance sector, meeting frequency of , size of audit committee, CEO duality, and CEO gender) on MFIs performance. The study used descriptive statistics, correlation and panel data regression methods (fixed effect model). Unlike Eyob (2016), this study found that board size, board competency, board experience and meeting frequency of board has a significant impact on the financial performance of Microfinance Institutions. However, Board gender composition, CEO duality and CEO gender does not have significant impact on the financial performance of Microfinance Institutions.

2.2.3 Impact of Corporate Governance on Performance of others Firms in Ethiopia

Some researchers have also conducted to identify the relationship between corporate governance and performance of firms in other industries. Among these, research conducted by Bonsa (2015) was one. The researcher has been analyzed to identify the relationship between corporate governance mechanism and financial performance in insurance companies. Panel data covering ten years period was collected from nine insurers in operating in Ethiopia. Effect of corporate governance variables such as board size, chief executive compensation, educational qualification of directors, presence of female directors, frequency of board meeting, other business management experience of directors, industry specific experience of directors on financial performance were analyzed using fixed effect techniques.

The regression results showed that compensation of CEO, educational qualification of directors, business management experience of directors, and industry specific experience of directors has positive and significant effects on financial performance of Insurance companies. On the other hand, board size, board meeting frequency and presence female directors don't have statically significant impacts on Insurers' performance.

A thesis conducted by Tadele G (2017) on the effect of corporate governance on the performance of private commercial banks in Ethiopia found that board size and variety, number of internal board subcommittee had statistically significant negative effect on private commercial bank financial performance. Board meeting frequency was negatively insignificant on banks performance. The thesis was conducted on seven banks by taking 13 years panel data and analyzed using fixed effect techniques like many of similar researches.

Similarly Yenesew (2012) has also conducted research titled 'The Impact of Corporate Governance Mechanisms on Firm's Financial Performance: Evidence from Commercial Banks in Ethiopia'. Five years data of eight commercial banks was analyzed. Effect of corporate governance mechanisms practices such as board size, board gender diversity, board members educational qualification, board members business management and industry specific experience, and audit committee size on three financial performance indicators (return on asset, return on equity and net interest margin) was analyzed. The regression results showed that large board size and audit committee has negative influence on financial performance; whereas board

members educational qualification has positive effect on financial performance. The research indicated that industry specific experience of director has positively related with return on asset but it has a negative effect on net interest margin. Finally, the finding reveals that the percentage of female directors and board members business management experience does not have a significant effect.

2.3 Conceptual Framework

Based on the reviewed literatures the following conceptual frame work has been constructed.

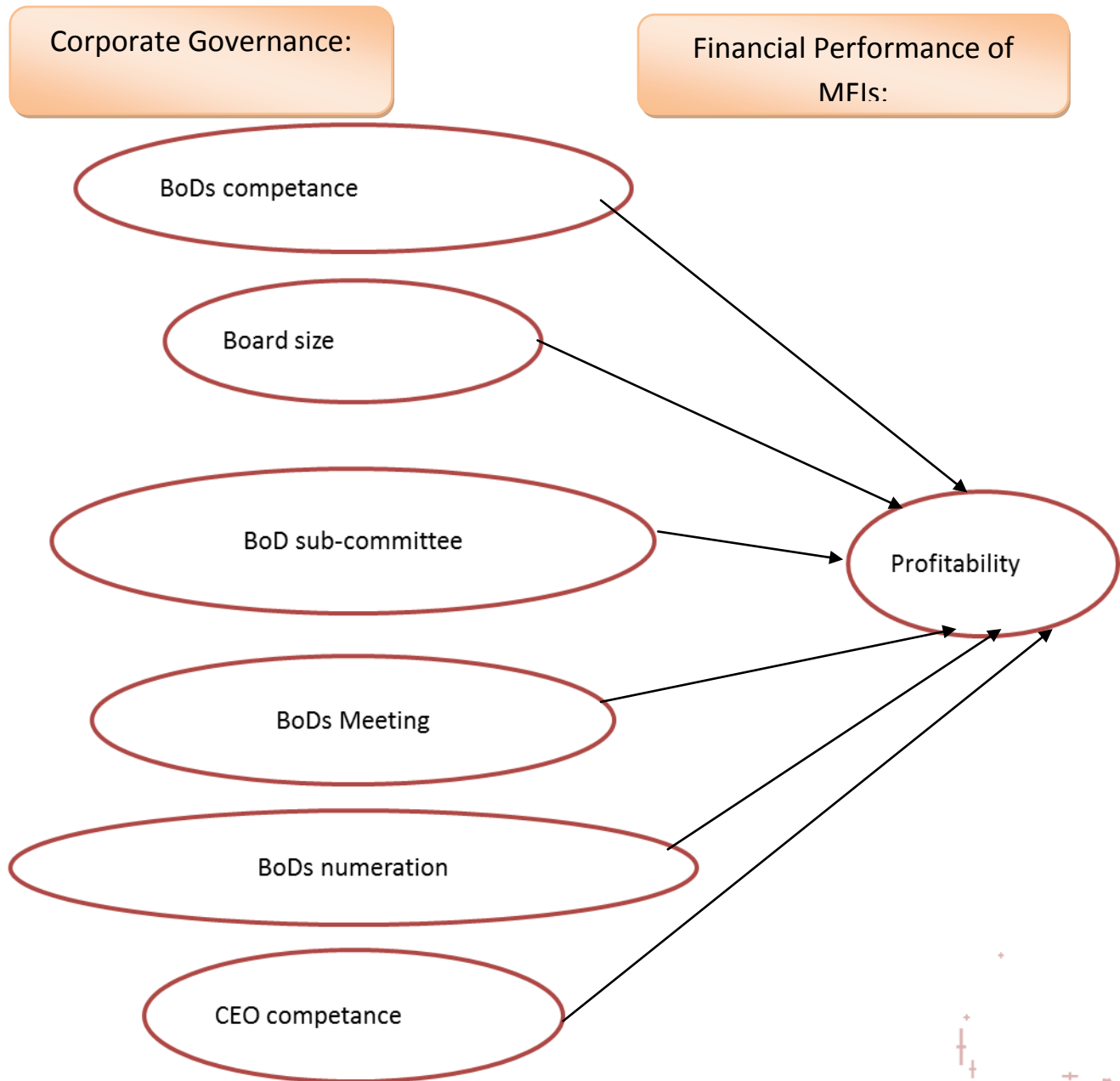


Figure1 Conceptual framework on the effect of corporate governance on Commercialization of MFIs

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter describes the research methodology and techniques used to conduct the study. It illustrates the research approach, design and method, population and sample, data source and type, description of the data collection tools, data collection procedure, ethical considerations and finally data analysis methods.

3.1 Research Approach

To answer the research questions and get better insight about the effect of corporate governance on financial performance of MFIs in Ethiopia, quantitative approach was adopted.

3.2 Research Design

To examine the relationship of corporate governance practices and financial performances of MFIs explanatory research design was employed. This type of research design helps to evaluate the causal relationship between explanatory and explained variable under study.

3.3 Population and Sampling

3.3.1 Target Population

The Population of the study was registered members of Ethiopian Microfinance Institutions (AEMFI) with complete three years data and above.

3.3.2. Sampling Frame

The sampling frame for selecting MFIs was the list of registered members of AEMFIs that have a business period of three years and above was used.

3.3.3. Sample Size

From the total 34 registered members of AEMFIs 25 MFIs with complete three year data was selected for the study.

3.4. Types and Sources of Data

In this study both primary data and secondary data were collected. Primary data was collected by questionnaire. The questionnaire was designed in a way that able capture all corporate governance variables and distributed physically and through email as appropriate to CEO/ or other senior management of each selected MFIs. The secondary data also collected from annual performance analysis report (Bulletin 12 to 14) of Association Ethiopian Microfinance Institutions over period of three years (2017 to 2019).

3.5 Validity and Reliability

For test the validity of the questionnaire, pretest was conducted before the main primary data collection.

3.6 Research Ethics

The researcher has taken into account ethics throughout the research process. A written guarantee was given to the respondents that the information is only for academic purpose and treated confidentially.

3.7 Data analysis and Model Specification

The data obtained from primary and secondary source was analyzed according to objective of the study. To estimate the effect corporate governance variables under consideration on financial performance (profitability) of MFIs, multiple regression analysis was employed. Duet to combination of cross sectional and time series of the data, fixed effect model was employed using Statistical Packages for Social Science (SPSS). Panel data involves the pooling of

observations on a cross-section of units over time periods and provides results that are simply not detectable in pure cross-sections or pure time-series studies (Freeman 1984) as cited by Bansa (2015).

Descriptive analysis was also employed to describe the important features of variables under study. To identify the relationship between dependent, independent variables correlation analysis was also conducted.

The following panel regression model was adopted for the study:

$$Y_{it} = \alpha_{it} + \sum \beta X_{it} + \epsilon_{it}$$

Where:

Y_{it} dependent variables represent RoA

α intercept

β slope coefficient of explanatory variables

X_{it} set of explanatory variables in the model represents corporate governance variable under study such as board size, board subcommittee, boards educational qualification, boards industry specific experience, numeration, board meeting frequency, CEO educational qualification, CEO industry experience.

Where subscript i and t denote the individual institutions characteristics (cross sectional dimension) and time series dimension respectively.

3.8 Description of Variables

The hypotheses to be tested in the model are how corporate governance practices affect MFIs' financial performance. The dependent variable as well as the explanatory variables that expected to affect profitability of MFIs is described as follows.

Return on asset (ROA): It is the dependent variables that measures profitability of institutions under the study. It is calculated by dividing net profit to total asset. For the purpose of the study adjusted return on asset was directly taken from performance analysis of AEMFI.

Board Size (BoDSize): it is a continuous variable and represents total members of board of directors of MFIs during the period under review. Opposing results have found regarding effect of board size on performance of MFIs from prior studies (Eyob 2016; Belete 2015). In this study we expect positive relation.

Board sub-committee (SubCom): it represents number of subcommittees established with in the main board. Existence of various sub-committees helps the main board to get advice and sufficient information to strengthening oversight duties. Thus, positive result is expected.

Board educational qualification (BoDEducM): It represents number of board members who have postgraduate degree from total directors. An educational qualification of board members is expected to be important for board decision making. Thus a positive result is expected.

Boards' numeration (NumerationLN): it represents the natural logarithms of total allowance payment for individual board members per year. The researcher expects positive sign.

CEO educational qualification (CEOeduN): it is a dummy variable taking 1 if a CEO has postgraduate degree and 0 otherwise. Financial performance of MFIs is expected have positive relation with level education.

CEO Industry related experience (CEOIndExpN): it represent number of years a CEO has served in financial institutions. We expect positive result.

MFIs Scale (MFIScaleN): it is a control variable representing institutional scale as categorized by AEMFI. AEMFI has categorized MFIs in Ethiopia into three groups namely large, medium

and small based on size of MFI's loan portfolio. It dummy variable taking 3 if a MFI is categorized as large, 2 if MFI is medium and 1 if small.

CHAPTER FOUR

RESULTS AND DISCUSSION

In this chapter the empirical findings are presented, and the results obtained are discussed. In addition to regression model descriptive statistics was also employed in data analysis. For conducting data management and empirical analysis SPSS statistics 26 software were used.

4.1 Descriptive Statistics Result

Based on the objective of the study, corporate governance variables and financial performance data of 25 MFIs over three years period was taken to analysis their causal relationship. The result showed that average member size of board of directors is 6.5 and ranges from 5 to 12. This result is the bellow recommendation of Council of Microfinance Equity Funds which is 7 to 9 (Chenuos *et al*, 2014). According to Parthasarathy *et al* (2019), a MFI's board member size need to be large enough to incorporate required skills and different views, and still small enough to allow active participation of all members and easy arrangement of meetings. Currently, the minimum size of board members allowed for MFIs in Ethiopia is five.

The data about number of sub-committees with in the main board showed that sub-committee established with in MFIs board ranges from zero to 3 and the average is 1.88 (see table 1). As indicated table 2, 24% of MFIs included in the study has no committee established with in the main board while the reaming 76% have at least one sub-committee. According to Parthasarathy *et al* (2019), board committees can reduce the amount of time all boards spend in deliberations and results in reduction of superficial decision making by the boards if used effectively. The same study indicated the importance of risk committee, audit committee, asset liability committee and human resource committees for MFIs' board decision making. As shown in table 2, from the total MFIs included in this study 72% have two or three committees that monitor the MFIs, and provide advice and information for main boards to facilitated informed and effective decision making.

Table 1. Board size, Board sub-committee, board members education, numeration and ROA of sampled MFIs

Variables	Obs	Std.			
		Minimum	Maximum	Mean	Deviation
Board Size, number	75	5	12	6.51	1.597
Board Sub-committee, number	75	0	3	1.88	1.185
Board members educational qualification, number	75	0	7	2.59	2.100
Numeration per year, ETB	75	0	120000	26618.67	26664.871
ROA, ratio	75	-.39	.33	.0683	.10754

Source: study result

It can also be observed from the result that allowance or numeration for the individual board members ranges from zero to ETB 120,000 per annum and the average is ETB 26, 618.67.

Average adjusted ROA of the 25 MFIs is 0.0683 (6.83%) over three years period and ranges from -0.39(-39%) to 0. 33 (33%) with standard deviation of 0.10754. The result also shows that on average 2.59 of board members are post graduate holders. Comparing this figure with average board size, the proportion of board members having post graduate degree holders is 39.78% (see table 2). Concerning educational qualification of the MFIs' CEOs, 60 % of CEOs have master's degree whereas the remaining 40% have first degree (table 3). Similarly 78.7% of CEOs has more than 10 years of industry experience while 21.3% have six to ten years of industry related experience (table 4). The results of both education level and industry specific experience of CEOs reveals that CEO competence is far above minimum requirements set by regulatory body.

According NBE directive No. MFI/21/12, the minimum requirement need to be fulfilled by a Chief Executive Officer of MFIs is first degree and 5 years of industry experience, of which three years is management position.

Table 2. Sub-committees established in sampled MFIs

Number of sub-committee established	Frequency	Percent	Cumulative Percent
0	18	24.0	24.0
1	3	4.0	28.0
2	24	32.0	60.0
3	30	40.0	100.0
Total	75	100.0	

Source: study result

Table 3. CEO educational qualifications

CEO education level	Percent
First degree	40
Master's degree	60
Total	100

Source: Study result

Table 4: CEO industry experience

CEO industry experience	Percent
Above ten years	78.7
Six to ten years	21.3
Total	100

Source: study result

Association of Ethiopian MFIs has reported categorized scale of MFIs as small, medium and large based on loan portfolio. Accordingly, majority of MFIs are those in large category. As shown in the table 5 below, 60%, 28% and 12% of MFIs included in this study are in large, medium and small category respectively.

Table5: MFI classification by scale

Scale	Percent	Cumulative Percent
Large	60	60
Medium	28	88
Small	12	100
Total		

4.2 Correlation Analysis

Under this section the result of Pearson Correlation analysis is presented. By using Pearson Correlation the relationship between corporate governance variables and financial performances (measured in ROA) of MFIs under study was analyzed. Although it does not indicate causal effect, correlation analysis shows the degree and direction of relationship between dependent variable and independent variables.

As shown in table 5, the relation of board size and CEO industry experience with RoA is positive at 5% significance level. Likewise RoA of MFIs under the study is positively related with board sub-committee, board of directors' numeration, educational qualification of boards of directors, education level CEO and scale of MFIs at 1% of significance level.

According to Hair et al. (2010) as cited by Abel (2019), relationship is considered small when correlation coefficient is ranges between plus/or minus (\pm) 0.1 to \pm 0.29, while the relationship is considered to be medium when it is between \pm 0.30 to \pm 0.49, and strong when it is above equal to \pm 0.50 and above. Based on this suggestion, relation of board size and CEO industry experience with ROA of MFIs under consideration is weak, whereas the relationship of board subcommittee, board educational qualification, MFIs scale (the control variable) and CEO

education with ROA medium. Interestingly, the relationship between board allowance (numeration) and profitability of MFIs measured in ROA is strong.

Table 6: Correlation coefficient

Variables	ROA
ROA	1
BoDSize	.281*
SubCom	.338**
NumerationLN	.534**
BoDEducM	.412**
CEOeduN	.349**
CEOIndExpN	.232*
MFIScaleN	.418**

** Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).

Source: Study result

To conclude the section, the correlation analysis reveals there is a relation between corporate governance variables and profitability of MFIs measured in return on asset. However it is not possible to predict the causal inferences using this analysis alone. Therefore, regression model analysis is presented in the next section to identify the causal effect of corporate governance variables on financial performance of MFIs in Ethiopia as the objective of the research project.

4.3 Regression Analysis

Before jumping to running regression analysis, explanatory variables identified for the study were tested whether there is serious multicollinearity problem among them or not. Accordingly variable inflated factor (VIF) were computed to check multicollinearity among variables, The VIF values shown in appendix 2 indicate that the explanatory variables included in the regression analysis have no multicollinearity problem. It is far below the tolerance level which is 10.

Table7: Fixed effect regression result

		Coefficients^a				
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.641	.151		-4.258	.000
	Year2	.062	.022	.269	2.772	.007
	Year3	.085	.023	.367	3.727	.000
	BoDSize	.008	.008	.113	.990	.326
	SubCom	-.008	.014	-.089	-.587	.559
	NumerationLN	.031	.015	.258	2.005	.049
	BoDEducM	.006	.007	.116	.937	.353
	CEOeduN	.071	.028	.319	2.488	.016
	CEOIndExpN	.026	.024	.099	1.079	.285
	MFIScaleN	.051	.015	.332	3.317	.002

a. Dependent Variable: ROA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.753 ^a	.566	.504	.07726

a. Predictors: (Constant), MFIScaleN, Year3, SubCom, CEOIndExpN, Year2, BoDSize, BoDEducM, CEOeduN, NumerationLN

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.484	9	.054	9.002	.000 ^b
	Residual	.370	62	.006		
	Total	.854	71			

a. Dependent Variable: ROA

b. Predictors: (Constant), MFIScaleN, Year3, SubCom, CEOIndExpN, Year2, BoDSize, BoDEducM, CEOeduN, NumerationLN

As specified on the preceding chapter, fixed factor effect model is used to analyze the effect of corporate governance on the financial performance of MFIs. The regression result is found from SPSS 26.

The regression result reveals that the overall model is significant at 1% level that suggests the corporate variables included in the analysis are statistically significant in jointly explaining the financial performance (ROA) of MFIs in Ethiopia. Likewise as shown in result table, the adjusted R square is 0.504 reveals that 50.4% of financial performance of MFIs in Ethiopia is explained by corporate governance practice included in the study such as board size, number board sub-committee, education qualification of board members, numeration for boards of directors, competence of MFIs' CEO jointly, while the remaining 49.6% of financial performance is explained by other factors (see table 7). The effect of individual variables under the study on ROA is presented below.

Board size (BoDSize): The effect of board members size on financial performance is positive as we expected by but not significant. Belete (2015), who has conducted study in the topic found positive and significant effect of board size on financial performance of MFIs in Ethiopia. Unlike this finding, Eyob (2016) has found negative and significant effect of board size on financial performance of MFIs.

Board sub-committee (SubCom): The effect of number sub-committee established in the main board is found to be unexpectedly negative but statically insignificant at conventional level.

Numeration (NumerationN): The effect of numeration on financial performance of MFIs in Ethiopia is positive and statically significant at 5% level. This result reveals that an increase in board members' allowance increases their commitment of supervision and supports that result in financial performance MFIs. This may be because as most of MFIs in Ethiopia are regional governments and NGOs backed where board members are not real shareholders that personally benefit from profitability of the institutions except the numeration. As of the researcher's knowledge, there were no prior researchers that considered this explanatory variable in their analysis.

Educational qualification of board of directors (BoDEduM): The effect of number of board of directors with post graduate degree on ROA of MFIs as expected by the researcher but statically insignificant.

CEO educational (CEOEduN): Another interesting finding of this research is that the effect of level education of a Chief Executive Officer on MFIs' financial performance is positive and significant at the 5% level. This reveals that the higher educational qualification of a CEO, the better is the financial performance of a particular MFI if other variables remain constant.

CEO industry experience (CEOIndExpN): As we expect the effect of industry related experience of CEO has positive effect on financial performance of MFIs. The result is, however, statistically insignificant.

MFI Scale (MFIScaleN): It is used as control variable for the study. Result of the regression reaves that the effect of MFI on financial performance is positive and significant. This suggests the larger the MFIs, the better in financial performance of MFIs. This can be because of economies of scale advantage.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND IMPLICATIONS

In the preceding chapter result of the study was presented and discussed. This chapter deals with summary of findings, conclusion drawn from the analysis and necessary recommendations based on the finding.

5.1 Summary and Conclusion

The descriptive statics result showed that average member size of board of directors is 6.5 and ranges from 5 to 12, which is bellow recommendation of Council of Microfinance Equity Funds. The result also shows that the proportion of board members having post graduate degree holders is 39.78% on average. Board sub-committee established with in the main board ranges from 0 to 3 and the average is 1.88. Out of total MFIs included in the study 24% has no committee established with in the main board while the reaming 76% have at least one sub-committee. The result also shows that average numeration of board of directors is ETB 26, 618.67 per year and ranges from 0 to ETB 120,000.

The result on educational qualification of the MFIs' CEOs shows that 40 % have master's degree whereas the remaining 40% have first degree. Similarly, 78.7% of CEOs has more than 10 years of industry experience while 21.3% have six to ten years of industry related experience.

Concerning the scale of MFIs considered in the study, 60% are in large category while 28% and 12% are in small and medium category respectively.

Average adjusted ROA of the MFIs included in the study is 6.83% and ranges from -39%) to 33% with standard deviation of 0.10754.

According to the correlation analysis result, the relation of board size and CEO industry experience with RoA is positive at 5% significance level. Likewise board sub-committee, board of directors' numeration, educational qualification of boards of directors, education level CEO and scale of MFIs are also positively related with ROA at 1% of significance level. Based on

suggestion by Hair et al. (2010), the relationships between boards allowance (numeration) and ROA, is strong whereas the relation of board subcommittee, board educational qualification, MFIs scale and CEO education with ROA is medium. The relation of the remaining two variables (board size and CEO industry experience) with ROA is weak.

The result of regression analysis conducted also shows that the overall model employed is significant at 1% level that suggests the corporate variables included in the analysis are significant in jointly explaining the financial performance (ROA) of MFIs in Ethiopia. Likewise, the adjusted R square result shows that 50.4% of financial performance of MFIs in Ethiopia is explained by corporate governance practices included in the study such as board size, number board sub-committee, education qualification of board members, boards numeration and competence of CEOs jointly. Out of seven explanatory variables identified for the study three are found significant and affect the dependent variable in expected direction.

The effect of boards' numeration, CEO education level and MFIs scale on financial performance MFIs in Ethiopia is positive and significant at 5%, 5% and 1% respectively. Whereas the effect board size, educational qualification of boards of directors and industry experience of CEO is positive as expected by the researcher but found insignificant. Unlike these, the effect of number of subcommittee on ROA is unexpectedly negative though it is not significant.

On the bases of these finding, which is aligned with the research project objectives it possible to conclude that improving corporate governance practices of MFIs such as appropriate number of qualified board members, reasonable allowance payment for board of directors, recruiting competent CEO in Ethiopia improves their financial performance and insure sustainability if other factors remain unchanged.

5.2 Implications

Based on the findings of this research project the researcher recommends the following for policy makers, regulatory body and practitioners of the sector.

Board size and educational qualification has positive effect on financial performance of MFIs in Ethiopia but the influence is not significant. This implies that the concerned body not only need give due attention for optimum number and qualification of board members but also rethinking on how to enable optimum commitment and effort of board members. This may include restructuring the ownership of the institutions to fill the board members with real shareholders.

The effect of board numeration on financial performance is found positive and statically significant. It implies that management of MFIs need to give due attention for boards allowance to get required supportive supervision from board members.

Competence of CEO has appositve significant effect on financial performance of MFIs in Ethiopia. Thus, in addition to other qualities, it is important to target educational qualification and industry experience during the recruitment process of CEOs.

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APPENDICES

Appendix 1: Questionnaire

Dear Respondents, this questionnaire is designed to conduct study on research title ‘‘ Effect of Corporate Governance on Microfinance Institutions Financial Performance in Ethiopia’’ in Partial fulfillment of the requirement for Degree of Masters in Business Leadership. The information is only requested for academic purpose that will be treated confidentially. Thus, please provide genuine response for the questions bellow. Thank you for time in Advance!

Part I: General information

1. Name of the MFI _____
2. Your position in the MFI? (please underline)
 - a) CEO
 - b) Deputy CEO
 - c) Department Manager
 - d) Any other (please specify)_____
3. Your gender
 - a) Male _____
 - b) Female _____
4. Your education level
 - a) Diploma _____
 - b) First Degree _____
 - c) Master’s Degree and above_____
5. Your service year in the MFI
 - a) Below 2 years _____
 - b) 2- 5 years _____
 - c) 6- 10 years _____
 - d) Above 10 years _____
6. Your role in the board of directors (BoDs) of the MFI

- a) Board secretary _____
- b) Board member _____
- c) Other (specify) _____

II: Corporate governance practices

S.N	Questions	Year in GC		
		2017	2018	2019
7	What is the size (number) of board members?			
8	Is sub-committee established with in the board?	a) Yes b) No	a) Yes b) No	a) Yes b) No
	If Yes, how many sub-committees have established?			
	Which sub-committee have established? (Underline as appropriate)	a) Risk Committee b) Audit committee c) Risk & Audit committee together d) Asset Liability committee (AICO) e) Human resource committee f) Nomination committee g) Others (specify)----- ----- -----	a) Risk Committee b) Audit committee c) Risk & Audit committee together d) Asset Liability committee (AICO) e) Human resource committee f) Nomination committee Others (specify----- ----- -----	a) Risk Committee b) Audit committee c) Risk & Audit committee together d) Asset Liability committee (AICO) e) Human resource committee f) Nomination committee Others (specify----- ----- -----
9	What is board meeting frequency of your MFI?	a) Monthly b) Quarterly c) Semi-annually d) Annually e) Other (specify).....	a) Monthly b) Quarterly c) Semi-annually d) Annually e) Other (specify).....	a) Monthly b) Quarterly c) Semi-annually d) Annually e) Other (specify).....
10	How much is the boards' numeration of your MFI? (please specify whether			

	the payment is per month or per meeting)			
11	What is the number of boards' members ?	a. Who have college diploma? _____ b. Who have first degree? _____ c. Who have master's degree and above? _____	a. Who have college diploma? _____ b. Who have first degree? _____ c. Who have master's degree and above? _____	a. Who have college diploma? _____ b. Who have first degree? _____ c. Who have master's degree and above? _____
12	Number of boards members who have business management experience?			
13	Number of boards members who have prior experience (as board or employee) in other MFIs or financial institutions			
14	Number of board members who have served for two years and above in your MFI?			
15	Education level of CEO of the MFI?			
16	What is the total industry relate experience of the CEO?			

Part III: Reflections on corporate governance variable

Do you think corporate governance characteristics listed in table below have an effect on performance of MFIs? (Please tick for each questions and give your justification)

S.N	CG practice	Yes	No	Please justify
17	Board size?			
18	Establishment of sub-committees with in the main board?			
19	Board meeting frequency?			
20	Board numeration?			
21	Board members education level?			
22	BoDs business management experience?			
23	BoDs industry related experience?			
24	CEO education level?			
25	CEO industry related experience?			

Appendix 2: Multicollineratiy test (VIF)

Coefficients^a

		Collinearity Statistics	
Model		Tolerance	VIF
1	SubCom	.434	2.304
	NumerationL	.445	2.245
	N		
	BoDEducM	.484	2.066
	CEOeduN	.486	2.059
	CEOIndExpN	.835	1.198
	MFIScaleN	.762	1.313

a. Dependent Variable: BoDSize

Coefficients^a

		Collinearity Statistics	
Model		Tolerance	VIF
1	NumerationL	.462	2.167
	N		
	BoDEducM	.546	1.832
	CEOeduN	.631	1.585
	CEOIndExpN	.851	1.175
	MFIScaleN	.778	1.286

a. Dependent Variable: SubCom

Coefficients^a

		Collinearity Statistics	
Model		Tolerance	VIF
1	BoDEducM	.784	1.276
	CEOeduN	.799	1.251
	CEOIndExp	.851	1.175
	N		
	MFIScaleN	.787	1.271

a. Dependent Variable: NumerationLN

Coefficients^a

		Collinearity Statistics	
Model		Tolerance	VIF
1	CEOEduN	.918	1.089
	CEOIndExp	.884	1.132
	N		
	MFIScaleN	.928	1.078

a. Dependent Variable: BoDEducM

Coefficients^a

		Collinearity Statistics	
Model		Tolerance	VIF
1	CEOIndExp	.953	1.050
	N		
	MFIScaleN	.953	1.050

a. Dependent Variable: CEOEduN

Coefficients^a

		Collinearity Statistics	
Model		Tolerance	VIF
1	MFIScale	1.000	1.000
	N		

a. Dependent Variable: CEOIndExpN