Assessment of Operational Performance of Meklit Microfinance Institution Share Company in Addis Ababa, Ethiopia

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Abstract

The main objective of the study was to assess the operational performance of Meklit Microfinance Institution. It has made use of secondary and primary data sources for which 85 clients were selected through stratified and simple random sampling. The data was analyzed by making use of simple descriptive statistical tools. The study discloses that most clients have borrowed on an individual loan base for trade, and non-trade or consumption; that reveals as Meklit Microfinance Institution seems to give much emphasis on individual lending. The survey result reveals that incentives have not been given to clients who have paid back their loan exactly on the due date instead they are treated equally with late payers. It also indicates that the amount of loan given to clients is inadequate to run their business that forces them toward double loan from other formal and non-formal financial sources. Most respondents indicated that the collateral requested for individual business loan is very difficult to fulfill particularly for lower-income individuals. The analysis on the four consecutive years' data shows that Meklit's repayment rate was below 97% signaling the existence of poor repayment performance and high loan default. The study reveals that the portfolio at risk for more than 30 days were above 10% up to the end of 2011/2012 fiscal year that implies the risk of uncollectible is significant for both past due loans and loans not due but contaminated. In the study the contribution of women borrowers in arrear was found to be less than men except in the last two years (2011/2012 and 2012/2013) that shows women's participation in microfinance as a guarantee for better repayment performance and longer relationship. The study has identified inadequate loan size, lack of supervision, collateral problem, lack of training, high interest rate, absence of special arrangement for reasonable late payment, inconvenient office location, and poor customer handling as factors that discourage borrowers not to be permanent clients. Finally, it is recommended that to enhance the pertinent challenges and promote a smooth relationship between Meklit and its clients; a pooled effort is needed from all concerned stakeholders. Particularly, Meklit shall pay special attention to reduce clients' dropout and *address more clients by using different promotional mechanisms. In order to improve the repayment performance in Meklit and to exactly decide to use individual or group lending, further research that employs a blend of advanced statistical techniques with more samples need to be conducted.*

Key words: performance, repayment, loan default, permanent client, client dropout

1. Introduction

Microfinance refers to the provision of financial services to the poor people or low income individuals who have no access to banking or other financial services (Brau, 2004). Access to credit could help the poor to improve their small business and in the long run break the vicious circle of poverty (Ibid). Therefore, there is a strong demand for credit among poor people one major problem is that they often lack collateral, and the result is that the formal financial sector does not normally provide the credit that the poor demand (Gebremichael, 2010).

Godquin (2004) pointed out that, the extent of repayment of loan is a good performance indicator of microfinance institutions (MFIs). According to this author any loan not collected on the agreed due date is considered as an arrear, and the seriousness of the arrears is determined by the intention of the client not to pay. Therefore, to identify the seriousness of uncollected loans and take an appropriate action, all arrears should be classified by their ages.

Retaining clients is another sign of good performance as it increases the profits of a firm which facilitates further investments leading to outreach (Waterfield, 2006). The more productive customers are retained; the lower the acquisition costs and the higher the productivity of loans will be (Islam, 2007).

The sustainability of MFIs is very important for efficient provision of financial services, because they are essential ingredients in the development processes of a country. But microfinance institutions face unique challenges because they must achieve to avail financial services to the poor and cover their costs (Rani, 2012). To tackle the problems and achieve the required goal, an efficient operation of the microfinance industry might be a necessary condition for the well-functioning of microfinance institutions in the long run in meeting the objectives of serving the poor and making the operation sustainable (Islam, 2007).

Due to lack of asset to be used as collateral, many poor people in different parts of Ethiopia did not get credit access from formal banks (Letaneh, 2009). Therefore, to solve this problem, the government of Ethiopia took the initiative to establish a regulatory framework in order to facilitate sound development of the microfinance industry. Accordingly, proclamation No. 40/1996 was enacted to provide for the licensing and supervision of the business of microfinance by empowering National Bank of Ethiopia (NBE) to license and supervise them (Arsyad, 2005).

To serve the poor MFIs should sustain both in operationally and financially (Brau, 2004). There are many problems that affect the performance of MFIs. Due to credit policy, follow up, and poor promotion MFIs face considerable problems of loan default, client dropout, and limited number of clients served by the institutions (Breth, 1999; Brau, 2004; Berry, 2010; Godquin, 2004; Dackauskaite, 2009).

2. Statements of the Problem

In Ethiopia, the formal base of MFIs has been laid by the issuance of proclamation No. 40/1996. The proclamation has established the licensing and supervision of MFIs as share companies with the objectives of providing financial services for low income society which are not included in the formal banking sectors. The primary objective of MFIs is to provide financial services to the poor in order to mitigate financial constraints and help to alleviate poverty. Each MFI tries to maximize its repayment performance, serving more able poor clients, and tries to retain them for a long period of time.

Some of the indicators of effective MFIs are the loan repayment performance of the borrowers, client retention performance, and outreach performance (Godquin, 2004). High-frequency of collections, tight controls, and good management of information system, loan officer incentives and good follow up are factors positively influencing loan repayment rates in the MFIs (Breth, 1999). Client retention is also another problem because high client exit/dropout rate increase the operation and administrative cost of screening and monitoring clients (Karim & Osada, 1998). The new clients also tend to take smaller loans thus bringing lower profits. When there is high dropout rate, it is difficult to attract new clients and increase the value and importance of client retention. This can be an obstacle to achieve the operational performance of microfinance institution especially breadth of outreach and sustainability.

However, failure of timely collection of loan from clients is the problem area of microfinance institutions as this affects both the institutions and the clients in the sense that the institutions are unable to get back their loan and expand their business by creating new clients and that client's will misuse loans and their business will no more be effective.

Research outputs indicated that, much time and effort are exerted on studying about social performance, financial performance, and level of poverty of MF clients (Wolday, 2001; Janson, 2003; Nathan, 2013; Warue, 2012; Brau, 2004; Arsyad, 2005). But, there were no much study emphasized on operational performance of MFIs especially in relation to repayment performance, client retention performance, and growth in number of active clients. Moreover, there was no empirical research conducted in Meklit Microfinance Institution (MMFI) regarding the aforementioned issues. Observable evidence and annual reports of MMFI showed that there is an experience of considerable problems regarding uncollectable loans, client withdrawal, and decreased number of active clients (MMFI, 2013).

In view of this, the researcher is interested to assess the real operational performance of MMFI with respect to repayment, retention and number of clients served by the institution.

3. Basic Research Questions

To address the problems discussed above the research questions were formulated as follows:

- How efficient is the repayment performance of the institution?
- How successful is the service in retaining the clients?
- How effective is the institution in serving more clients?

4. Objective of the Study

The main objective of this research is to assess the operational performance of MMFI; more specifically the research has the following specific objectives.

- To assess the repayment performance of the institution,
- To evaluate the institution’s retention performance, and
- To see the effectiveness of outreach performance (serving more clients)

5. Significance of the Study

The study might be helpful for Microfinance Institutions including Meklit Microfinance Institution regarding mitigating operation performance problems. It may also be helpful to other researchers as baseline information for further study of this area. More importantly, it is supposed to assist policy makers for understanding issues in MF operation.

6. Scope of the Study

There are many factors affecting operational performance and sustainability of MFIs that includes repayment performance, client retention performance, outreach, policy support, social performance, and the use of innovative features. But due to financial problems and time constraint, this study covers the repayment, retention, and breadth of outreach (number of clients served) aspects of MMFI. To have current information the research focuses on active borrowers of the institution in Addis Ababa. Moreover, the income level, family status, and other detail assets of the borrowers were not included in the study.

7. Research Design and Methodology

7.1. Research Design

According to Mouton (1998), the Choice of the research design depends on the objectives of the study, the availability of data sources, the cost of obtaining the data, and availability of time. In view of this, the study employed a descriptive survey method to assess operational performance of MMFI. The research aimed to collect data on the factors affecting the operational performance of MMFI in Addis Ababa, Ethiopia. According to Oso and Onen (2005), descriptive design is a process of collecting data in order to answer questions concerning the current status of the subject in the study.

7.2. Population, Sample Size, and Sampling Techniques

The total number of target population undertaken for this study was 566 active borrowers of MMFI in and around Addis Ababa. The sample size for this study was drawn from the population of MMFI which constitute a total active borrower of 566. Among the total population, 85 borrowers were taken using the following formula as a sample for the study.

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

Where, n=sample size, N=population, C=Coefficient of variation (0.5), and e= level of precision (0.05) and this has been proportionally distributed to each stratum based on the required total sample size. Therefore, the sample size (n) was found to be 85 respondents.

7.3. Sampling Techniques

The researcher used stratified sampling technique. According to Saunders et al (2009), a stratified sample is a sampling technique that enables to obtain a representative sample. Under stratified sampling the population is divided into several sub-populations that are individually more homogeneous than the total population or strata. Since each stratum is more homogeneous than the total target population, better representation or estimation of a whole can be obtained.

Simple random sampling was used to select the sample from each stratum. An important benefit of simple random sampling is that it allows researchers to use statistical methods to analyze sample results (Ibid). The researcher used lottery method to obtain a simple random sample.

Table1: Sample size determination

S/N	Loan category	Total borrowers	Sample size
1	Group business loan	206	206*85/566=31
2	Individual business loan	246	246*85/566=37
3	Individual consumption loan	113	113*85/566=17
Total		566	85

Accordingly, Eighty five questionnaires were distributed to respondents and all were returned. In addition to borrowers, for triangulation purpose interview was conducted with loan officers, branch managers and operation manager. The data was analyzed (with the help of SPSS version 20 and Excel) and presented using descriptive statistics such as percentages, tables, charts, and graphs.

7.4. Source of Data

Applying more than one data sources and collection methods helps to substantiate findings in the study (Saunders et al., 2009). Accordingly, the researcher employed both primary and secondary data sources. The primary data was collected through questionnaire that solicits ideas related to the research problem from respondents. In addition to questionnaires an interview was conducted with branch loan officers and branch managers, and operation manager at the head office level. The secondary data was collected from review of MMFI operation manual, five year annual operation reports, and borrower's profile. In addition, relevant research literature, such as books, brochures, articles, and research outputs are used as additional secondary source.

7.5. Methods of Data Analysis

Data analysis is the application of reasoning to understand the data that have been gathered from respondents and the appropriate analytical technique of the analysis mainly determined by the characteristics of the research design and the nature of the data gathered (Sapsford & Jupp, 2006). The data (quantitative and qualitative) gathered from sample active borrowers were organized, tabulated and presented using tables, graphs and charts with the help of excel and SPSS version 20. The qualitative data obtained through interview was also interpreted in combination with the data secured by questionnaire. Finally annual financial report showing outstanding loan balance, delinquent loan, number of new and exit client were used to supplement or counter check the analysis through interview and questionnaire.

7.6. Reliability Test

Following Vanderstoep and Johnston (2009), the reliability measure for the dependability of the instrument to test for what it was designed to test can be examined through the calculation of Cronbach's alpha coefficients. The acceptable scale suggested on Cronbach's alpha coefficient of construct is 0.6 (Bryman, 2008) while a scale of 0.70 is preferable (Swanson & Holton, 2005). In this research it is assumed that, if the test obtains the value of 0.65, it means the items in the model are understood by most of the respondents. On the other hand, if the findings are far from the expected value of 0.65, the respondents have different perceptions toward each item of the domain.

8. Results and Discussion

8.1. Characteristics of respondents

Table 2 below: shows that 54.1% (46) of respondents are male and 45.88% (39) of respondents are female. This indicates that men and women respondents in the sample are relatively close in number. On the other hand nearly 50% have below secondary level education: 25.88% (22) elementary education, 20(23.52%) beginners' education, 17.65% (15) secondary education, 17.65% (15) college level diploma education, 14.12% (13) first degree, and 1.18%% (1) have postgraduate level of education. The lower level of educational accomplishment of respondents could be seen as implying that borrowers would not understand well the loan agreement and other business issues.

Table 2: Background information of respondents

Item		**Number**	**Percent**
Sex	Male	46	54.1
	Female	39	45.9
	Total	85	100.0
Level of Education	Basic education	20	23.52
	Elementary education	22	25.88
	Secondary education	15	17.65
	TVET or diploma	15	17.65
	First degree	12	14.12
	Above First degree	1	1.18
	Total	85	100.00

Source: own compiled from questionnaire response

Table 3 shows that number of active borrowers in MMFI are more in individual business loan. Except for the last year (2012/2013) above 50% of borrowers borrowed in individual business loan lending system. In all five years data above the highest number of borrowers are individual business borrowers. On the other hand the number of borrowers in individual consumption loan is next to individual business loan borrowers. The least number of borrowers are found in group business borrowers. This shows that the institution is inclined more on individual business loan.

Table 3: Number of borrowers in activity during the year

Years		Group Business Loan	Individual Business Loan	Individual Consumption Loan	Total
2008/2009	No.	130	647	313	1090
	%	12%	59%	29%	100%

2009/2010	No.	140	591	226	957
	%	15%	62%	24%	100%
2010/2011	No.	138	644	167	949
	%	15%	68%	18%	100%
2011/2012	No.	125	359	165	649
	%	19%	55%	25%	100%
2012/2013	No.	118	246	165	529
	%	22%	47%	31%	100%

Source: MMFI (2013)

An interview conducted with branch managers and operation manager also supported this fact. As learnt from the discussion with managers in the interview, there is a tendency towards favoring lending to individual rather than to groups. The reason for this is that the group loan size is not satisfactory and group collateral tends to be risky. Individuals are also inclined to favor individual borrowing as they do not want to shoulder the blame for which they are not solely responsible.

MMFI requires immovable fixed asset (building) as collateral of individual business loan, and a salaried person for individual consumption loan. The institution lends consumption loan for only individuals working in any legal organization with a salary. As far as the clients of microfinance are low income households, they may not be able to fulfill collateral requirement to participate in individual business loan. Hence, the clients who are unable to file the required collateral may leave the institution.

8.2. Analysis on the operational performance of MMFI

8.2.1. Repayment Performance

Table 4: repayment issues

No.	Item	Agreement Level						
			5	4	3	2	1	Total
1	Spending the borrowed loan for the intended purpose properly.	No.	11	33	5	28	8	85
		%	12.9	38.8	5.9	32.9	9.4	100
2	On time repayment is an incentive to get the next higher	No.	8	22	10	35	10	85
		%	9.4	25.9	11.8	41.2	11.8	100

	loan size.							
3	After the loan is disbursed loan officers follow up or supervise clients business regularly.	No.	7	15	10	38	15	85
		%	8.2	17.6	11.7	44.7	17.6	100
4	Before the signing of loan contract, the lender (MMFI) confirms the feasibility of clients business.	No.	6	24	12	35	8	85
		%	7.1	28.2	14.1	41.2	9.4	100

Scale: 5= Strongly Agree, 4= Agree, 3=Neutral, 2= Disagree, and 1 Strongly Disagree

Regarding loan utilization table 4 shows that 38.8% (33) and 11(12.9%) of respondents agree and strongly agree respectively that the borrowed money is spent properly for the intended purpose. On the other hand 32.9% (28) and 9.4% (8) of respondents disagree and strongly disagree respectively with the issue of proper loan utilization for the intended purpose. The rest 5.9% (5) of respondents remain neutral. The majority of respondents responded that they used the loan properly for the intended purpose as they plan. Interview responses from managers and loan officers indicated that there are borrowers who didn't utilize the loan as per the signed contract instead they are found using the loan for other purposes. This can be evidenced by respondents too, because about 42.30% (32.9%+9.4%) of respondents agree with improper use of loan. Clients who do not utilize the loan properly for the intended purpose will face bankruptcy; as a result the loan might not be repaid on time. Thus, the lending institution incurs operating cost to recover the loan in terms of extra follow up and court fees. Moreover, other borrowers might follow the defaulter.

Concerning the issue of repayment incentives (table 4 item 2), 41.2% (35) of respondents disagree, 11.8% (10) of respondents strongly disagree, 25.9% (22) of respondents agree, 9.4% (8) of respondents strongly agree, and 11.8% (10) of respondents are neutral. The result showed that MMFI didn't acknowledge borrowers who have paid their loan repayment on the due date. The interview response of operation manager and branch managers also shares respondents' opinion of disagreement on repayment incentives. MMFI appears to believe that repayment on the due date doesn’t lead to any incentive for borrowers rather it is their responsibility to repay the money back on due date. Moreover, the officials (managers) added that any borrower who failed to pay the loan exceeding three months is not allowed to borrow next time. This implies that the institution has employed a stringent collection policy.

As it is shown in table 4 (item 3) respondents were asked whether or not they are supervised regularly by loan officers. In this regard 44.7% (38) of respondents disagree, 17.6% (15) of respondents strongly disagree, 17.6% of respondents agree, and 8.2% (7) of respondents strongly agree with the exercise of post-loan supervision. The rest 11.7% (15) of respondents have no positive or negative agreement on post-loan supervision. The majorities of respondents are not happy or agree with the intensity of supervision carried out by the lending institution. This shows that once the loan is disbursed, clients are not supervised regarding loan utilization with business effectiveness. In contrast, interview conducted with branch managers and operation manager reveal that client’s business and loan utilization is supervised and checked by loan officers as often as possible. In addition to loan officers individual business loan clients having birr 25,000 and above outstanding balance are supervised by branch managers and operation managers. This indicates the institution gave more attention especially for higher loan size.

Concerning the issue of pre-loan supervision (table 4 item 4), over 50% (43) of respondents expressed their dissatisfaction with the supervision before the loan is approved and disbursed taken by the lending institution. It is of course essential to check the type and feasibility of clients business before the loan is approved and disbursed; because clients may run another business or request overstated loan size. The interview with branch managers’ revealed that, pre-loan supervision is a necessary condition for loan approval and disbursement. This is an indication of information gap between the institution and the clients or borrowers. This can indicate again poor relationship among the two.

Table 5: Other repayment performance issues

No.	Item		Frequency	Percent
1	Have you got training from Meklit MFI?	Yes	17	20.0
		No	68	80.0
		Total	85	100.0
2	Do you borrow from other institution (s)?	Yes	21	24.7
		No	64	75.3
		Total	85	100.0
3	If your answer is yes from which institution (s) you borrowed?	Other MFIs	16	18.8
		Family or friends	3	3.5
		Informal money lenders	2	2.4
		Total	21	24.7
		System	64	75.3
4	Does the repayment period suitable to respond on time?	Yes	29	34.2
		No	56	65.8
		Total	85	100.0
5	What is your repayment status?	Repayment on Schedule	30	35.3
		Repayment in arrears	55	64.7
		Total	85	100.0
6	What is the main reason that prohibits you from loan repayment?	Business not profitable	26	31
		Loan used for household expenses	18	21
		Sold on credit	13	15
		Loss of asset	3	4
		Not in arrears	25	29
		Total	85	100.0

8.2.2. Training

Table 5 shows 80% (68) of the respondents have not taken any training from the lender concerning how to run their business and how to utilize the loan; only 20% (17) of respondents verify they had such training. This situation confirmed that a lose link between MMFI and the borrowers in terms of proper loan utilization, effectiveness of clients or borrowers business, repayment on the due date, service expansion; because it is not fair for 80% of respondents borrowed without at least basic training. The interview with branch managers also verified that, less attention is given for client training.

8.2.3. Double loan

Table 5, item 2 shows that 24.7% (21) of respondents borrowed additional loan from other financial sources, which means the loan size of MMFI doesn’t satisfy some of its clients. 75.3% (64) of respondents have no loan from any financial sources other than MMFI. An interview with branch managers revealed that there is no formal way of checking on borrowers whether they had debt from other financial institutions. Borrowers filled the form prepared by the institution, and the information they gave considered as correct. But it can be understood that borrowers hide information or fill false information.

8.2.4. Sources of double loan

As indicated in table 5 item 3 24.7% (21) of respondents borrowed from MMFI with having loan balance from other lending institution. From the 24.7% (21) of respondents who have borrowed loan from other lending institutions 18.8% (16) of respondents borrowed from other MFIs, 3.5% (3) borrowed from their family or friends, another 2.24% (2) of respondents borrowed additional money from any informal lenders. This confirms that the different lending institutions do not exchange information among themselves to deter double loans.

8.2.5. Repayment period suitability

65.8% (56) of the respondents feel that the repayment period set by MMFI was not suitable, while 34.2 % (29) thought the period was adequate. The data obtained through interview revealed that the institution uses monthly installment base for all loans and the institution believed that borrowers have monthly cash flow to settle their monthly repayments. Since the data from respondents and from officials through interview contradicted each other, the suitability of repayment period needs additional survey to reconcile the clients’ need and management intention.

8.2.6. Repayment Status

It was found that 64.7% (55) of borrowers had their repayments in arrears, and 35.3% (30) of respondents had repayment on schedule. The findings therefore indicate that the majority of borrowers were in arrears as far as loan repayment was concerned.

8.2.7. Default reason

Responses from 31% (26) of the borrowers in arrears, indicated the reason why their loan repayment was in arrears was because business was not profitable, while 21% (18) said they used the loan for household expenses hence unable to repay the loan on schedule. Further, 15% (13) of borrowers sold on credit and were not able to make repayments on time, 4% (3) lost their assets and 29% (25) of the respondents indicated they were not in arrears. This implies that the business status of borrowers and effective loan utilization needs close follow up by the lender.

8.2.8. Repayment rate

As discussed in the literature part, repayment rate measures the amount of payment received with respect to the amount due (Godquin, 2004). It is a good measure in monitoring repayment performance over time. In addition, it is useful for projecting future cash flows, because it indicates what percentage of the amount due can be expected to be received, based on past experience.

Table 6: Repayment rate

Years	Total Amount received	Amount prepaid	Amount due	Amount past due	Repayment rate
2008/2009	1,680,588.57	552,900.00	180,912.00	1,225,891.52	80%
2009/2010	2,898,609.96	232,811.53	1,894,362.08	1,447,841.83	80%
2010/2011	6,271,173.37		4,581,615	3,437,495	78%
2011/2012	3,943,591.76	284,116.18	2,528,855.76	1,677,938.02	87%
2012/2013	1,901,302.69	818,667.41	878,138.80	239,174.65	97%

Source: MMFI (2013)

Repayment rate less than 97% is a sign of poor repayment performance and high loan default (Ibid, 2004). Table 6, above shows repayment rate of MMFI in 2008/2009 and 2009/2010 was 80% respectively, 78% in 2010/2011, and 87% in 2011/2012 .At the end of 2012/2013 it reached to 97%.

As the result indicated above the repayment performance of MMFI was not satisfactory for four consecutive years, but it showed an improvement in the last year 2012/2013.

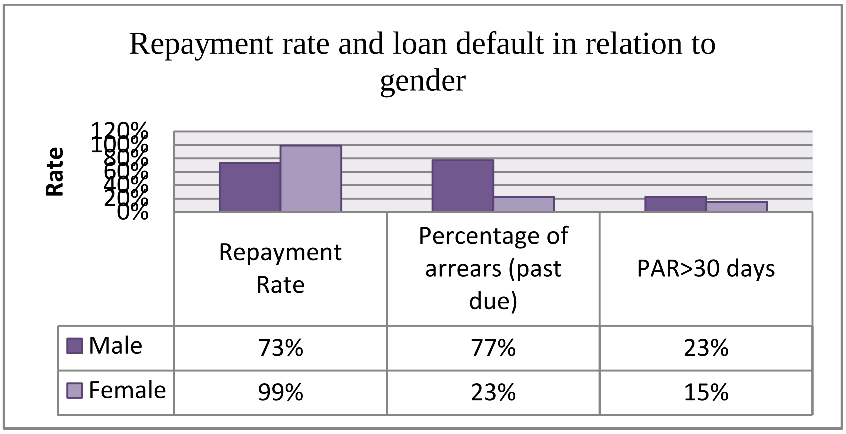
Table 7: Repayment Rate, Percentage of arrears, and PAR>30 days in relation to gender

S/N	Description/Item	Male	Female	Total
1	Total Amount Received (A)	10,206,384.92	6,488,881.43	16,695,266.35
2	Prepayment (B)	1,086,661.51	801,833.61	1,888,495.12
3	Amount due and paid (C)	6,228,054.75	3,835,828.61	10,063,883.36
4	Amount due but not paid /past due/ (D)	6,180,981.01	1,847,360.26	8,028,341.27
5	Repayment Rate= A-B/C+D	73%	98.9%	82%
6	Percentage of arrears (past due)	77%	23%	
7	Total portfolio with arrears >30 days	5,409,900.81	2,181,184.74	7,591,085.55
8	Total outstanding Gross Portfolio	23,482,417.96	14,581,863.26	38,064,281.22
9	PAR>30 days	23%	15%	

Source: MMFI (2013)

As it can be observed from table 7 above, the repayment rate of male borrowers is 73% whereas repayment rate of women borrowers is 98.9% this implies that women borrowers repay their loan on time or on due better than their counter parts. Empirical studies show that women borrowers perform better in relation to loan repayment (Felix, 2011; Hossain, 1998). Due to repayment problems related to male customers some MFIs decided to move over to a nearly full concentration on women borrowers (Hulme, & Kasim, 1991). The percentage of arrears or default loans of women borrowers is 23%, where as male borrowers take 77% of the defaulted loan. This implies that the defaulted loans are more in male borrowers than women borrowers. The risk of portfolio in women borrowers is less than male borrowers. Because as seen in table 7 above PAR>30 days is 15% for women borrowers and 23% for male borrowers. This indicated that women borrowers are less risky than male borrowers in relation to arrears and risk of loan not to be collected.

Figure 1: Repayment and arrears in relation to gender issues



Source: MMFI (2013)

The graph above shows the higher repayment rate the lesser default loan and risk in women borrowers.

Table 8: Portfolio at Risk Greater than 30 days

Description		Years				
		2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
Outstanding with arrears >30 days		1,371,087.03	1,640,969.98	2,258,826.87	1,696,030.37	624,171.30
Total outstanding loan		6,298,928.69	6,482,030.18	8,792,521.32	7,961,660.42	8,529,140.61
PAR>30 days		22%	25%	26%	21%	7%
Outstanding with aging of arrears (>30 days)						
31-60	Amt.	75,433.21	104,936.88	42,530.45	34,484.16	192,096.37

days	PAR	1%	2%	0%	0%	2%
61-90 days	Amt.	60,977.83	74,217.99	13,110.01	59,676.43	51,330.83
	PAR	1%	1%	0%	1%	1%
91-180 days	Amt.	133,085.80	126,642.70	357,101.84	19,108.49	122,965.63
	PAR	2%	2%	4%	0%	1%
181-365 days	Amt.	151,716.07	259,972.76	204,987.92	87,772.61	175,563.98
	PAR	2%	4%	2%	1%	2%
>365 days	Amt.	949,574.12	1,075,199.65	1,641,096.65	1,494,988.68	82,214.49
	PAR	15%	17%	19%	19%	1%
PAR >90 days		20%	23%	25%	20%	4%

Source: MMFI (2013)

According to the data above the PAR>30 days was 20% in 2008/2009 and 2011/2012; it was 23% in 2009/2010, 25% in 2010/2011, and 7% in 2012/2013. This implies that risk of loan not to be collected is high, but the institution's report in 2012/2013 shows that the risk is significantly minimized. This situation improves repayment performance and enhances financial capacity.

Table 9: PAR >30 days plan and performance comparison

S/N	Description	Year					
		2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	Commutative
1	Plan	13%	12.3%	12%	11%	5.2%	11%
2	Actual	22%	25%	26%	21%	7%	20%
3	Difference	9%	12.7%	14%	10%	1.8%	9%

Source: MMFI (2013)

The plan for risk loan not to be collected was 11% whereas the performance is 20%; the risk increased by 9% instead of decreasing or at least keeping the plan. This shows that the performance of MMFI in relation to PAR> 30 days was very poor. Because the risk of loan not to be collected is higher than what was planned.

8.3. Retention Performance

8.3.1. Loan cycle

Table 10: Loan cycle

How many times you borrow from MMFI?	Frequency	Percent
First	34	40.0
Second	33	38.8
Third	10	11.8
Fourth	4	4.7
More than fourth	4	4.7
Total	85	100.0

As it can be observed from the table 10, 40% (34) of respondents are borrowers for the first time and 38.8% (33) have got their second loan. The table also shows 11.8% (10) of respondents are in the third cycle, 4.7% (4) of the respondents have reached to fourth cycle, and the other 4.7% (4) borrowed more than four times. Here it can be concluded that the majority of the respondents are new or first time borrowers. New clients need more follow up and smooth relationship. Furthermore, the loan size granted for new borrowers is relatively small; the income generated from small loan size has no significant contribution to cover follow up, screening, and recruitment, cost of new clients.

8.3.2. Repayment Rate and PAR>30 days in Loan Category

Table 11: Repayment Rate and PAR>30 days in Loan Category

S/N	Description	Group business loan	Individual business loan	Individual consumption loan	Total
1	Total Amount Received (A)	6,060,381.69	7,245,745.60	3,389,139.07	16,695,266.35
2	Prepayment **(**B)	685,523.73	819,606.88	383,364.51	1,888,495.12
3	Amount due and paid (C)	3,653,189.66	4,367,725.38	2,042,968.32	10,063,883.36

4	Amount due but not paid /past due/ (D)	3,164,287.88	3,234,300.11	1,629,753.28	8,028,341.27
5	Repayment Rate= A-B/C+D	79%	85%	82%	82%
6	Total portfolio with arrears >30 days	2,755,564.05	3,294,531.13	1,540,990.37	7,591,085.55
7	Total outstanding Gross Portfolio	11,317,334.08	19,019,898.05	7,727,049.09	
8	PAR>30 days	24%	17%	20%	

Source: MMFI (2013)

As it can be observed from table 11 above the repayment rate of individual business loan is 85%, whereas the repayment rate of individual consumption loan and group business loan is 82% and 79% respectively. From this it can be deduced that there is a tendency of high repayment rate in individual loan than group loan. As Reikne (1996) assessed, the factors that lead to the failure of group based lending system for a better credit repayment. Reikne suggested that group lending system is not advisable for urban loan but it is applicable in rural lending. Due to the fact that the low repayment rate in group loan, MMFI is concentrating more on individual lending system.

In relation to PAR>30 days, it can be seen that low percentage of portfolio at risk in individual loans (17% in individual business loan and 20% in individual consumption loan) than group loan (PAR>30 days is 24% in group loan). This implies that the risk of loan not to be collected is less for individual loan compared to group loan.

Table 12: Retention Performance

No	Item	Agreement Level						
			5	4	3	2	1	Total
1	MMFI lending system is based on paying history and capacity of the borrower.	No.	3	48	9	22	3	85
		%	3.5	56.5	10.6	25.9	3.5	100
2	The customer handling of the institution encourages for repeated loan.	No.	2	15	9	48	11	85
		%	2.4	17.6	10.6	56.5	12.9	100
3	Borrowers received the requested and approved loan with a short period of time.	No.	5	55	7	14	4	85
		%	5.9	64.7	8.2	16.5	4.7	100
4	The location of the lender's office is convenient that can easily found and reached.	No.	10	12	8	40	15	85
		%	11.8	14.1	9.4	47.1	17.6	100
5	MMFI is willing to arrange extra time for late payments with free of penalty for reliable and acceptable default risk.	No.	2	15	1	49	18	85
		%	2.4	17.6	1.2	57.6	21.2	100
6	The loan size granted by the institution is adequate to meet borrowers need.	No.	11	15	7	27	25	85
		%	12.9	17.6	8.2	31.7	29.4	100
7	I plan to use MMFI's services again in the future	No.	15	20	30	15	5	85
		%	17.6	23.53	35.29	17.6	5.88	100
8	I will recommend MMFI's services to others	No.	12	22	15	27	9	85
		%	14.1	25.9	17.6	31.8	10.6	100
9	The collateral or security requested by the lender (MMFI) is fair.	No.	12	24	5	28	16	85
		%	14.1	28.2	5.9	32.9	18.8	100

Key: 5= Strongly Agree, 4= Agree, 3= Neutral, 2= Disagree, and 1= Strongly Disagree

8.3.3. Repayment history and payment capacity of borrower

Table 12 item 1 depicts 56 % (48) of respondents agree, 25.9% (22) of respondents disagree on the issue that MMFI lending system is based on repayment history and paying capacity, 3.5% of respondents strongly agree, 3.5% (3) and strongly disagree respectively, and 10.6% (9) of respondents are silent on the issue of considering borrower paying history and capacity. Majority of the respondents agreed that MMFI lending system is not considering paying history and capacity of borrowers. This shows that the repayment history and paying capacity of borrowers have no impact on lending system of MMFI.

8.3.4. The customer handling practice of the institution

Concerning the customer treatment issues table 12, item 2, 56.5%, (48) and 12.9% (11) of respondents disagree and strongly disagree respectively on the quality of the institution's customer handling practice. On the other hand 17.6% (15), and 2.4% (2) of respondents agree and strongly agree respectively with good customer service practice of the institution, the rest 10.6% (9) of respondents have no agreement or disagreement. The data indicated that, the majority of respondents are not convenient with the service provided by MMFI. In contrast the interview with operation manager and loan officers indicated that the institution is striving for better customer. They added also training is provided every year for operational staffs to build up their customer handling capacity.

8.3.5. Loan waiting time until disbursement

Of the total respondents, 64.7% (55) agree, 16.5% (14) disagree, 5.9% (5) strongly agree, 4.7% (4) strongly disagree, and 8.2% (7) of respondents are indifferent on the issue that MMFI has a fast loan disbursement. The majority of respondents agreed that fast loan disbursement is in place at MMFI. This indicated that the lender is efficient in loan process and disbursement.

8.3.6. Office proximity

In relation to office location 47.1%, (40) and 17.6 % (15) of respondents disagree and strongly disagree respectively on the convenience of office proximity. The other wing of 14.1%, (12) and 11.8% (10) of respondents agree and strongly agree respectively on the same issue. 9.4% (8) of respondents have not shown their agreement or disagreement on the issue of office location suitability. From the result we can conclude that the location of MMFI office is not convenient for borrowers to get the service with the shortest time and minimum cost. This may force clients to look for other microfinance institutions of better office location or service that saves the time and cost. During an interview the institution's officials also believed the office location is not comfortable for service efficiency, but due to lack of financial resources the institution limited the number of offices. Moreover, both loan disbursement and collection takes place in the office makes the situation serious.

8.3.7. Late payment arrangement

Regarding extra time arrangement for late payers, 57.6%, (49) and 21.2% (18) of respondents disagree and strongly disagree respectively, 17.6%, (15) and 2.4% (2) of respondents agree and strongly agree respectively, and 1.2% (1) of respondents did not decide their level of agreement. From this it can be deduced that the institution is not flexible for the treatment of late payment even with sufficient evidence for default attached with.

8.3.8. Loan size

With regard to loan size, 31.7% (27) of respondents disagree, 29.4% (25) of respondents strongly disagree, 17.6% (15) of respondents agree, and 12.9% (11) of respondents strongly agree with the issue of sufficiency of loan size. The rest 8.2% (7) respondents are indifferent. It was evident that most of the respondents are convinced that the loan size of MMFI is not enough for the intended purpose. Interviewed officials of MMFI replied that some borrowers' especially in group lending repeatedly asked the institution to increase the loan size. But due to financial capacity of the institution and experience of loan default, no solution has been given in this regard.

8.3.9. Decision about future loan repeats

In table 12 it is seen that 35.29% (30) of respondents did not express their plan either to use or not to use MMFI's service again. 17.65% (15) and 5.88% (5) of respondents disagree and strongly disagree with the idea of borrowing again from MMFI while 23.53% and 17.65% (15) of respondents agree and strongly agree. Thus, it can be deduced that most of the respondents do not show a green light to using the service of MMFI in the future.

8.3.10. Service recommendation to others

31.8% (27) and 10.6% (9) of respondents disagree and strongly disagree respectively with the idea of recommending MMFI's service to others. On the other hand 25.9% (22) and 14.1% (12) of respondents agree and strongly agree respectively to recommend the service for others. The result shows that the majority of respondents are not satisfied with the service they have accordingly they are not willing to recommend other individuals to use the institution's services.

8.3.11. Fairness of collateral requirement

About 32.9% (28) and 18.8% (16) of respondents disagree and strongly disagree respectively with the fairness of collateral requested by the institution. On the other hand 28.2% (24) and 14.1% (12) of respondents agree and strongly agree respectively that the collateral requirement is fair. The other 5.9% (5) of respondents are neutral. This implies that the collateral requested by MMFI is not fairly supported by most of respondents. Meaning the collateral requirement is far from borrowers' capacity to fulfill and borrow the loan.

Officials of the institution explained that many customers face a problem to fulfill collateral requirement for individual business and consumption loan of above 25,000. This is due to absence of other enforcement mechanisms to secure loan repayment of individual loan. The result found from both sides showed that unfair collateral is requested by MMFI.

8.3.12. Interest rate

Table 13: Interest rate

How do you evaluate the interest rate of Meklit?	Number	Percent
Low	2	2.4
Moderate	27	31.8
High	56	65.9
Total	85	100.0

According to table 13, 65.9% (56) of respondents believe the interest rate of MMFI is high, 31.8% (27) of respondents believe that it is moderate, and 2.4% (2) of respondents evaluate the interest rate as low. Since the majority of respondents suggested that the interest rate is high, it can be posed that the interest rate of the institution may have weakened the financial strength of borrowers. Thus, it may lead to client's dropout from the institution.

In summary, it has been observed that the retention rate of MMFI during five consecutive years is on average 74%. This implies that MMFI retention rate is not in a good state and needs due attention.

Table 14: Retention of rate

Years	Sex	Active client (end)	New client (B)	Active client (Beginning)	(D)=B+C	Retention rate (E)=A/D
2008/2009	Male	924	720	515	1,235	75%
	Female	661	518	318	836	79%
	Total	1,585	1,238	833	2,071	**77%**
2009/2010	Male	956	924	412	1,336	72%
	Female	719	661	350	1,011	71%
	Total	1,675	1,585	762	2,347	**71%**
2010/2011	Male	1,024	956	345	1,301	79%

	Female	684	719	267	986	69%
	Total	1,708	1,675	612	2,287	**75%**
2011/2012	Male	1,092	1,024	520	1,544	71%
	Female	1,079	684	630	1,314	82%
	Total	2,171	1,708	1,150	2,858	**76%**
2012/2013	Male	1,172	1,092	600	1,692	69%
	Female	1,199	1,079	520	1,599	75%
	Total	2,371	2,171	1,120	3,291	**72%**

Source: MMFI (2013)

Also, retention rate of women borrowers is better than that of men. This implies that engaging more women borrowers has advantage for longer relationship and better loan repayment. It is also learned that retention rate of MMFI has decreased from year to year; i.e. 77% in 2008/2009, 71% in 2009/2010, 75% in 2010/2011, 76% in 2011/2012, and 72% in 2012/2013. From 2008/2009-2010/2011 the retention rate of women was greater than men.

8.4. Outreach performance

8.4.1. Client promotion

Table 15: how clients join MMFI for the first time

Through which means did you hear about MMFI for the first time?	Number	Percent
From friend	44	51.8
From notice or ads	13	15.3
From Kebele notice	5	5.9
From the institution, during different meetings	9	10.6
Others	14	16.5
Total	85	100.0

Table 15 shows that 51.8% (44) of respondents join the institution through information from friends, 15.3% (13) of respondents from notice announced by the institution, 10.6% (9) of respondents through mobilization by the institution's staffs during public meetings or other events; 5.9% of respondents from kebele notice board, and 16.5% (14) of respondents from other sources like by chance walking around the office of MMFI. Most of the respondents have got information about the institution and its service by their own effort. Thus, it can be understood that the lender's effort about promoting the institution and the service provided by the institution is very limited. The limited mobilization system hinders the service in addressing many users (the service may not reach to many customers).

8.4.2. Growth in active clients

According to literature breadth of outreach performance is measured by growth in number of active clients.

Table 16: Growth in number of active clients

Year and Sex		Ending	Begin ning	Difference	Growth
Year	Sex	Number			percentage
2008/2009	Male	924	720	204	16%
	Female	661	518	143	12%
	Total	1,585	1,238	347	**28%**
2009/2010	Male	956	924	32	2%
	Female	719	661	58	4%
	Total	1,675	1,585	90	**6%**
2010/2011	Male	1024	956	68	4%
	Female	684	719	-35	-2%
	Total	1,708	1,675	33	**2%**
2011/2012	Male	1092	1024	68	4%
	Female	1079	684	395	23%
	Total	2,171	1,708	463	**27%**
2012/2013	Male	1172	1092	80	4%
	Female	1199	1079	120	6%
	Total	2,371	2,171	200	**9%**

Source: MMFI (2013)

As it can be seen from the table above, the growth in number of active clients has decreased over the years. The number of active clients grew by 28% in 2008/2009 and 27% in 2011/2012, whereas, the remaining three years the growth of active clients was less than 10% (6% in

2009/2010. 2% in 2010/2011, and 9% in 2012/2013). Even though the growth in the number of active clients was very slow, MMFI was relatively better in the growth of number of female clients than male. So it can be concluded that the aggregate number of active clients served by MMFI are limited, and the operation policy of the institution needs to be revised in a manner that targets on more clients.

Table 17: Plan performance in terms of active client

Year	Plan **(A)**		Achievement **(B)**	Difference **(C=A-B)**	Achievement in percentage **(D=B/A*100)**
	Sex	Number			percentage
2008/2009	Male	3397	924	2473	27%
	Female	2442	661	1781	27%
	Total	5840	1,585	4255	27%
2009/2010	Male	3416	956	2460	28%
	Female	2181	719	1462	33%
	Total	5597	1,675	3922	30%
2010/2011	Male	3252	1024	2228	31%
	Female	2181	684	1497	31%
	Total	5416	1,708	3708	32%
2011/2012	Male	2594	1092	1502	42%
	Female	1501	1079	422	72%
	Total	4063	2,171	1892	53%
2012/2013	Male	2475	1172	1303	47%
	Female	1485	1199	286	81%
	Total	3960	2,371	1589	60%

Source: MMFI (2013)

As it can be observed from the table that, for most of the time considered in the study, MMFI achieved below 50% of its plan - 27% in 2008/2009, 30% in 2009/2010, and 32% in 2010/2011. Better achievement (53% in 2011/2012 and 60% in 2012/2013) has been recorded in the last two years relative to the previous years. On the other hand MMFI has achieved better in female clients than male especially in the years 2011/2012 and 2012/2013; the achievement in those years was 72% and 81% respectively. So, it can be deduced that MMFI gave more attention for female clients, but the total achievement in terms of addressing more clients is not encouraging. However, the MMFI officials argue that the plan was not unachievable but financial constraint inhibits the achievement.

9. Conclusion

The majority of respondents revealed that, repayment made exactly on the due date doesn't add any value for their next loan size or any other incentives. MMFI treats both early and late payers equally. This situation discourages borrowers who have good repayment performance, and it may lead the borrower to loan default. Pre-loan supervision is also very important for over all repayment and business performance. As the outcome showed, some respondents borrow additional loan from other formal and non-formal financial sources. Currently there is no formal and systematic means of identifying double loan borrowers.

Repayment rate less than 97% is a sign of poor repayment performance and high loan default. Accordingly, the repayment rate of MMFI was below 97% for four consecutive years (from 2008/2009 to 2011/2012). On the 5th year (2012/2013) it was 97%, showing improvement. Poor repayment performance leads to loan in arrears that can be measured with portfolio at risk (PAR). Within low repayment performance in MMFI women's repayment performance is better than their men counter parts. Moreover, MMFI has relatively good repayment performance in individual loan than group loan.

The study reveals that the portfolio at risk for more than 30 days were above 10% up to the end of year 2011/2012. This implies that the risk of uncollectable loan is significant for both past due loans and loans not due but contaminated. But at the end of 2012/2013, the portfolio risk was found to be 7% (the risk being not to be paid) that shows improvement. The risk of loan not to be collected is less in women borrowers than men borrowers.

The result of this study concluded that inadequate supervision of borrowers by the MMFI staff on loan utilization and loan repayment lead to default of repayments. Supervision is an important aspect since it induces borrowers to be committed. On training of borrowers before receiving of loans from MMFI, it was concluded that training is important in giving borrowers skills in business management, savings and in book keeping. As the study also reveals that majority of respondents are below TVET level of education. This shows that they should be supported with supervision and training.

Client retention is another performance issue in microfinance. Client dropout is an urgent problem within the microfinance industry. It creates costs for the microfinance institution, as it has to recruit, screen and train new clients and undermines the prospects to become sustainable and to achieve deeper outreach. The study shows that most respondents are new and second time borrowers. Small loan size is granted for new clients. This is not enough for efficient operation for clients' business. As a result clients forced either to have additional loan from other MFIs or decide to exit altogether. In addition to small loan size absence of supervision and advice by the lender have a contributing effect on clients dropout or low client retention rate.

The location of MMFI office is not convenient for borrowers to get the service with the shortest time and minimum cost. This may discourage clients to join in MMFI. Due to inconvenient office location individuals who seek services from MMFI might look for other microfinance institutions of better office location that saves their time and cost. Moreover, both loan disbursement and collection takes place in the office makes the situation sever.

The collateral requirement demanded by MMFI is difficult to fulfill by borrowers. In MMFI individual loan above birr 25,000 requires immovable fixed asset collateral. This is too difficult for MF borrowers. This situation prohibits borrowers from coming to MMFI; instead they start to find other MFIs that require reasonable collateral to fulfill their credit demand.

Presence of loan default and of high client exit weakens the financial capacity of MMFI. Due to this the institution could not serve more clients as per the plan. The collateral policy and low repayment also reduces outreach performance. The survey result also showed that less effort was exerted for promotion. Moreover, the growth rate of active clients exhibits a decreasing rate in each of the five year (from 2008/2009 to 2012/2013).

10. Recommendations

Based on the empirical results of the study, the following feasible recommendations and policy implications are forwarded.

- Before the loan is approved, the feasibility of client's business should be evaluated. After the loan has been disbursed it must be supervised regularly, and accordingly appropriate corrective action should be taken. Moreover, the institution should keep record profile of supervision to identify the clients that are doing well based on their repayment performance.
- To encourage good repayment performance, MMFI shall provide incentive packages for borrowers who have good performance record like grace period, increased loan size, fast next loan approval and disbursement.
- MMFI should offer regular trainings that could help clients to properly manage/utilize and keep records on the loan they have borrowed.
- MMFI in collaboration with other similar institutions should try to design systems to identify borrowers who have loan from other microfinance institutions.
- MMFI should pay special attention to minimize clients' dropout. In order to retain the clients, MMFI should revise the loan size policy in line with the financial capacity of the institution and legal frame work of microfinance institutions by substantiating the decision with results from further research.
- Continuous customer handling training should be given to staffs especially operational employees.

- The institution should give attention for office location in terms of proximity to borrowers as a long term plan, but for the short term MMFI shall follow outdoor collection policy to share client's compliant regarding long distance.

- Finally, MMFI should address more clients by using different promotional mechanisms.

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