ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

MBA PROGRAM

ASSESSMENT OF OPERATIONAL PERFORMANCE OF MEKLIT MICROFINANCE INSTITUTION SHARE COMPANY IN ADDIS ABABA, ETHIOPIA

BY

AYTENSIFU YEHUALASHET

JUNE 2014

ADDIS ABABA, ETHIOPIA

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A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIESIN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTEROF BUSINESS ADMINISTRATION

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APPROVED BY BOARD OF EXAMINERS

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DECLARATION

I, the undersigned\, declare that this thesis is my original work, prepared under the guidance of my advisor (Matiwos Ensermu). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Aytenfisu Yehualashet __________________________

St. Mary's University, Addis Ababa June, 2014

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a University advisor.

Matiwos Ensermu ________________________

St. Mary's University, Addis Ababa June, 2014

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LIST OF ABBREVIATIONS

Abbreviation	Description
MF	Microfinance
MFIs	Microfinance Institutions
MMFI	Mkelit Microfinance Institution
NBE	National Bank of Ethiopia
AEMFI	Association of Ethiopian Microfinance Institution
CGAP	Consulting Group to Asset poor
PAR	Portfolio At Risk

Abstract

The study was conducted in Meklit Microfinance Institution. The main objective of the study was to assess the operational performance of Meklit Microfinance Institution. It has made use of primary and secondary data sources and 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. Sample respondents agreed for the effective loan utilization that can be assured through regular supervision by the lender to control the use of loan for unintended purpose. 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. The survey result indicates that the amount of loan given to clients is inadequate to run their business that liable them for 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 the poor 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, and lack of training, high interest rate, absence of special arrangement for reasonable late payment, office location, and poor customer handling as factors that discourages 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, and Client dropout

CHAPTER ONE

INTRODUCTION

This chapter deals with the introductory part of the study that covers background of the study, statements of the problem, basic research questions, objectives of the study, significance of the study , limitation of the study, scope of the study, and definitions of terms,

1.1Background of the Study

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, 2004). 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). The formal commercial banks believe that the small and frequently repeated loans demanded by the poor people are too risky and has too low potential profitability. Commercial banks lack personal background information of their customers, in terms of their activities and characteristics. Due of this, they are unable to monitor how the loans are being used by customers in relation to the intended objectives. Therefore, poor people often have access only to the informal financial market, which have better information about their customers and provide credit facility at very high interest rates (Felix, 2011).

Godquin (2004) pointed out that, the extent of repayment of loan is a good performance indicator of microfinance institutions. According to the author (Ibid, 2004) 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 (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 make 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 operational and financial (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; and Dackauskaite, 2009).

1.2 Background of the Organization

This study is focusing on the assessment of operational performance of Meklit Microfinance Institution (MMFI). MMFI is one of the MFIs established as a share company in accordance with proclamation No. 40/1996 to provide efficient financial and related support services to its customers (MMFI, 2012). The institution acquired its legal personality and started its operations on February16th, 2000 in Addis Ababa. The institute provides financial services for customers with the age range of 18 to 70. According, to the operation manual of the institution updated in April 2012, MMFI will always strive to increase the percentage of women clients to about 70%. Based on the prevailing conditions, the institution arranges its priority in a manner that is advantageous to women clients. These include giving priority to women applicants; targeting women dominated sub-sectors of the economy (MMFI, 2012).

MMFI focuses mainly on financial services relevant to the needs of its clients. Credit is the main financial service provided by the institution in the form of group business loan, individual business loan, and individual consumption loan to clients. Clients are required to use this financial asset and pay it back with interest and service charges (MMFI, 2012).

1.3 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. This is because due to collateral requirements the poor could not have access to loan services from commercial banks. Hence, by providing loan to the marginalized groups, MFIs are expected to provide loan services and to make profit for their continued existence (Wolday, 2005).

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 repayment rate give benefits both to the MFI and the borrowers. If there is high repayment rate, the relationship between the MFI and their clients will be healthy. High repayment rate helps to obtain the next higher amount of loan and other financial services. In contrast, if there is low repayment rate, both the borrowers and the MFI will be affected. In this case the borrowers will not be able to obtain the next higher loans and the lenders will also lose their clients (Ibid, 2004).

There are factors positively influencing loan repayment rates in the MFIs. The main factors on the lender's side are high-frequency of collections, tight controls, a good management of information system, loan officer incentives and good follow up (Breth, 1999). The author, added that the size of loan, the interest rate charged by the lender, the timing of loan disbursement, gender, and the education level of the client have also an effect on repayment performance (Jemal, 2003).

Client retention is also another problem because high client exit/dropout rate increase the operation and administrative cost of screening and monitoring clients (Karim, and 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.

Hence, timely collection of loan is seen as a primary duty of the lenders as it helps to maximize their profit in which the clients are also encouraged to improve their business through paying back their debts. Retaining customers for a long period of time is also another aspect of operational performance that strengthens the financial capacity of the institution to bring on board many poor clients, and help them to benefit from the service. These together can increase the number of beneficiaries who can benefit from microfinance services.

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 be no more effective.

Some institutions do not provide the necessary training related to the project and this results in failure of the clients in their business due to lack of awareness about the business to be undertaken and this in turn directly affects the institution.

It is also agreed that some MFIs are not effective enough in retaining their clients for a long period of time due to their poor customer handling service and inefficient loaning system. This result in the gradual withdrawal of the clients which directly affects the institution's operating performance. Losing clients and replacing them by new ones in turn incurs the institution operation cost by way of screening, training, and follow up of new clients with small loan size.

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; and Arsyad, 2005). But, there were no much study is emphasized on operational performance of MFI especially in relation to repayment performance, client retention performance, and growth in number of active clients. Moreover, there was no empirical research conducted in MMFI regarding the aforementioned issues. Observable evidence and annual reports of MMFI showed that there is an experience of considerable problems regarding to uncollectable loans, client withdrawal, a 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.

1.4 Basic Research Questions

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

1. How efficient is the repayment performance of the institution?
2. How successful is the service in retaining the clients?
3. How effective is the institution in serving more clients?

1.5 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.

1. To assess the repayment performance of the institution,

2. To evaluate the institution’s retention performance, and

3. To see the effectiveness of outreach performance (serving more clients)

1.6 Significance of the Study

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

1.7 Limitation of the Study

It is not denied that any research paper from its initiation to completion perhaps encounter a limitation. Besides, some of the limitations that face in the preparation of this research thesis were time constraint together with in school course and job assignment, the respondents understanding of filling the questionnaire was not satisfactory. To keep quality of the research data, assigning experienced data collectors with reasonable payment under the close supervision of the researcher was a must. This has resulted a major problem in organizing the whole research paper.

1.8 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.

1.9 Definitions of Terms

- **Microfinance:** a type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services.
- **Collateral:** a personal guarantee, guarantees from peers, or asset pledged by a borrower to secure a loan, which can be repossessed in the case of default.
- **Group lending:** lending mechanism which allows a group of individuals - often called a solidarity group - to provide collateral or loan guarantee through a group repayment pledge.
- **Individual Lending:** single client lending where repayment relies solely on the individual.
- **Microfinance Institution**: an institution that provides financial services to the poor.
- **Active Clients:** the number of clients with loans outstanding on any given date.
- **Default:** failure to make timely payment of interest or principal on a loan, or to otherwise comply with the terms of a loan.

- **Delinquent:** something that has been made payable and is overdue and unpaid.
- **Disbursement:** the actual transfer of financial resources or cash to borrowers that should be repaid back to the lender.
- **Portfolio at Risk > 30 days:** the value of all loans outstanding that have one or more instalments of principal past due more than 30 days. This includes the entire unpaid principal balance, including both the past due and future instalments, but not accrued interest. It does not include loans that have been restructured or rescheduled.
- **Number of Active Borrowers:** the number of individual who currently have an outstanding loan balance with the institution.
- **Number of Active Clients:** number of individuals who are active borrowers and/or savers with the institution.
- **Sustainability:** sustainability is the ability of a microcredit program to maintain its operations and continue to provide service to its customers or clients.
- **Outstanding loan:** is the past due and due loan not repaid by borrowers or it is the loan in the hands of borrowers.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter reviews the work of other researchers relating to microfinance performance surrounding repayment, retention, and outreach performance.

2.1 Concepts and Definitions of Microfinance Institutions (MFIs)

Microfinance refers to the provision of financial services to low-income clients, including the self-employed (Hardy, 2003). Financial services of MFIs include savings and credit. However, some offer payment and insurance services, (Ibid, 2003). Theoretically, microfinance encompasses any financial service used by the needy, including those they access in the informal economy, such as loan from a village money lender (Ibid, 2003). In practice however, the term is usually only used to refer institutions and enterprises whose goals include both profitability and reduction of the poverty of their clients. Microfinance services are needed everywhere, including the developed world (Islam, 2007).

Poor households were typically excluded from the formal banking system due to lack of collateral, to overcome this problem the ideas of microfinance institutions have generated as much hope for alleviating poverty in low-income countries (Hulme & Arun, 2009). Thus, microfinance promises both to combat poverty and to develop the institutional capacity of financial systems through finding ways to cost-effectively lend money to poor households.

Microfinance business Proclamation No. 626/2009 of Ethiopia also defines microfinance business as "the provision of financial services like accepting savings, extending credit, drawing and accepting drafts payable, providing money transfer services and others".

According to Ledgerwood, (1999), most people understand or think microfinance as being microcredit i.e. lending small amounts of money to the poor. But, microfinance provides a service other than microcredit, which includes insurance and saving (the most important for the poor); whereas microcredit is a component of microfinance that provides small loans to entrepreneurs (who are too poor and who didn't qualify for formal bank loans). Microcredit enables very poor people to engage in self-employment projects that generate income (Islam, 2007).

The concept of microfinance also helps to resolve some of the problems that usually close out the poor from the financial market; information asymmetries, low-potential profitability and lack of portfolio diversification (CGAP, 2009). The problem of information asymmetries is solved by group lending assuming that, the one who sees as risky is excluded from the group, and peer pressure also used as an incentive to repay on time (Islam, 2007). Therefore, the group as a whole is responsible for each other's actions.

2.2 The Rise and Characteristics of Microfinance

According to Bateman, (2011), the microfinance movement began with the work of Dr. Muhammad Yunus in Bangladesh in the late 1970s. In the midst of a country-wide famine, he began an experiment by making small loans to poor families in neighboring villages in an effort to break their cycle of poverty. Yunus was successful in his experiment and receiving timely repayment and observing significant changes in the quality of life for his loan recipients (Brau, 2004).

Due to his inability to a self-finance for the expansion of the project, Yunus asked government support in order to establish a financial institution. As a result, with the integration of the government and the individual the Grameen Bank was established. The focus area of the bank was on the very poor and it lent only to low income households.

In line with this the work of Yunus work spread rapidly to other low income countries and most early microfinance institutions (MFIs), including Yunus's own iconic Grameen Bank, relied on funding from government and international donors, justified by MFI claims that they were reducing poverty, unemployment and deficiency (Hossain, 1998).

Microfinance is available through microfinance institutions, which range from small non-profit organizations to larger banks (Brooks, 2013). Among the services offered by MFIs are small loans as well as help obtaining insurance for a variety of needs, such as death, illness or loss or property. In order to keep their services running, microfinance institutions typically charge significantly higher interest rates than those on a formal bank loan.

Microfinance gives access to financial and non-financial services to low income people, who wish to access money for starting or developing an income generation activity (Breth, 1999). The individual loans and savings of the poor clients are small. Microfinance as a discipline has created financial products and services that together have enables to become clients of a banking intermediary (Nathan, 2013).

Characteristic	Description
Client profile	✓ Low income and poor households ✓ Employed in the informal sector or self employed ✓ Lacks traditional collateral ✓ Interlinked household and microenterprise activities ✓ Predominantly women
Lending technology	✓ Group or individual loans ✓ Simple and minimal documentation ✓ Cash flow and character based
Loan portfolio	✓ Working capital, short term loans, repeat loans ✓ Clients mostly women
Collateral	✓ Collateral substitutes e.g. group lending, joint liability, peer pressure, public repayments, compulsory savings ✓ Nontraditional forms e.g. household items
Culture/ideology	✓ Poverty reduction ✓ Provision of social services e.g. skills training, nutrition, health, basic literacy

Source: (Nathan, 2013)

2.3 Development of MFIs in Ethiopia

In most Western or developed countries, it's relatively easy to obtain credit through large banks or money lending institutions (Wolday 2000). On the contrary, in the least developed countries including Ethiopia the poorer section of the community do not access to formal financial sectors due to collateral, bureaucratic and lengthy process and procedures of loan providing systems (Ibid 2000). In addition, formal banks prefer high income clients and large loans because of considering loan demand by the poor as unattractive and unprofitable (Wolday 2001).

The establishment of sustainable microfinance institutions that reach a large number of rural and urban poor, who are not served by the conventional financial institutions (such as the Commercial Banks), has been a prime component of the new development strategy of Ethiopia (Leteneh 2009). Although the development of microfinance institutions in Ethiopia started very recently, the industry has shown a remarkable growth in terms of outreach, particularly in number of clients (Wolday 2000).

By considering benefits and challenges faced by the poor communities; the Ethiopian government had established microfinance Institutions (MFIs) by the licensing and supervision of the business of microfinance institutions (MFIs) in July1996, through Proc. No. 40/1996 with the objectives of providing a legal framework that brings monetary and financial policies, and a legal framework for the promotion of MFIs (Wolday 2000). The proclamation allows MFIs to undertake both financial and non-financial activities.

As it is indicated in AEMFI report, (2010), in Ethiopia there are 31 licensed Microfinance institutions providing financial services for rural and urban clients in different parts of the country. Among all, twenty (64.5%) MFIs are in Addis Ababa.

2.4 Contribution of MFIs on Poverty Reduction

Financial services allow poor people to save and borrow money so that they can maintain a consistent level of consumption without selling off income producing assets (Weiss, et al, 2003). Microfinance can also provide an opportunity for expanding or pursuing new business opportunities that allow poor people to increase or diversify the sources of their income.

Weiss, et al, (2003), concluded that micro finance increases the self-confidence of the poor by meeting their emergency requirements, ensuring need based and timely credits and making the poor capable of savings. In their study, they also show the credibility of microfinance in health related issues in a positive manner. It has been postulated that by making policy towards income generation and enhancement, ultimately to eradicating poverty alone can improve the health status through better, timely and easy access of health care.

Jansson, (2003), concluded that microfinance is the most important resource to provide loans and other basic financial services and to increase the employment rate, productivity and earning capacity. Jansson state that it will impact the people’s lives through removing poverty, and improving living standards such as health, education, food and other social impacts.

2.5 MMFI Loan Size Duration

Table 1: Loan cycle, size, and term in MMFI

S/N	Group Business Loan			Individual Business Loan			Consumption Loan		
	Loan cycle	Loan Size (birr)	Term (Months)	Loan cycle	Loan Size (in birr)	Term (Months)	Loan cycle	Loan Size (in birr)	Term (Months)
	1st	500-4,000	12	All	3,000-100,000	12 to 36	1st	500-4,000	12
	2nd	5,000	12				2nd	4,001-8,000	18
	3rd	6,000	12				3rd	8,001-25,000	24
	4th	7,000	24						
	5th	8,000	24						
	6th	9,000	24						
	7th	10,000	24						
	8th	11,000	24						

Source: MMFI (2012)

A. Group Business Loan

As MMFI (2012) stated, this is a loan which is delivered to clients which run the businesses pertaining to production, services and retailing activities. It is delivered with group methodology with a member's number ranging from 3-5. This loan is usually delivered for low income people running small and microenterprises. The loan and interest is paid on monthly bases. The interest rate for business group loan is 19% and with the maximum loan term of 24 months).

B. Individual Business Loan

It is clearly indicated in the institution's operation manual MMFI (2012), this loan is delivered to clients having business license and certificate of personal property (mainly fixed assets), and running their business in urban areas. In addition, clients should have sufficient collateral; a salaried person can be used as collateral for the loan amount up to birr 25,000.00. But a client who wants to lend greater than birr 25,000, is required to have certificate of personal fixed asset (only building) as collateral and has to be blocked with appropriate responsible authority.

C. Consumption Loan

According to MMFI (2012), this is a loan for wage earners and salaried civil servants. Clients should be working in an organization on full time bases and have served for at least one year. The client is also obliged to bring letter of guarantee from his office. The letter that comes from their organization the letter has to pledge that the organization would be holding securable in case the borrower failed to settle its obligations. Salaried individual guarantee is valid for only up to birr 25,000 loan. Employees of any legal organization can borrow more than birr 25,000 (but not greater than 100, 000) by presenting certificate of immovable personal property as collateral.

2.6 Operational Performance of MFIs

Yitay (2011), discuss that poor client will use MFIs just as long as the gains to them exceed the costs. For the beneficiaries, good performance means repeated use as long as gains exceed the costs. If they did not expect to gain, then they would not repay debts, borrow more than once, nor hold deposits through time. Repeated use of services implies MFIs have improved the welfare of their poor clients.

2.6.1 Repayment Performance

Operational performance of MFIs mainly is mainly related with repayment performance that refers to the total loans paid on time as stated in the loan agreement contract (Jansson, 2003). As a lending institution, MFI is a risky business because it offers credit to the poor people without asset collateral and the repayment of loans cannot be fully guaranteed. However, the repayment rate is the most important performance indicator of MFI (Ibid, 2003). Jansson (2003), emphasizes repayment performance of MFI is mainly focused on group based lending or group liability because group based lending has an advantage in minimizing the loan default compared to an individual loan. Other studies also emphasize the role of joint liability in group lending, peer selection, peer monitoring, and peer enforcement are important factors in minimizing loan default (Letaneh 2009; Arsyad, 2005). Lending that uses; peer selection, peer monitoring, dynamic incentives, regular repayment schedules, and social collateral can maintain high repayment rates.

According to Nawi and Shariff (2013), however, not all MFIs offer credit based on group-lending because group-lending is not suitable for entrepreneurs who can expand their businesses faster and require more capital. Group-lending is also not suitable for some people when they can produce need personal guarantee and require more flexible loan conditions. Due to the above unique conditions individual lending is used as another lending methodology of microfinance as long as they have specific asset or personal guarantee as collateral. Since, there is no peer enforcement in the case of individual lending; the lending institutions should have intense follow-up so as to have a good repayment performance (Aryad, 2005).

2.6.1.1 Credit Policy

A credit policy spells out guidelines which are followed in extending credit to clients including the procedures for recovering loans in arrears. It is important because of its impact on client retention and outreach strategies adopted by MFIs (Mulumba, 2011). A stringent credit policy turns away potential clients and slows the loan portfolio growth which lowers client retention whereas a liberal credit policy attracts slow paying customers and increases the arrears rate (Berry, 2010). Therefore, a good credit policy is one which strikes a balance between client retention and defection to facilitate outreach.

2.6.1.2 Gender and repayment

Studies show that women consistently outperform men in terms of repayment. For instance, Felix (2011), report that in its initial phase the Grameen Bank included men as customers. However, the bank decided to move over to a nearly full concentration on women due to repayment problems related to male customers. In an empirical investigation, Hossain (1988) reports that in Bangladesh 81 percent of women encountered no repayment problems compared to 74 percent of men. Similarly, from Malawi, Hulme (1991) reports that 92 percent of women pay on time, compared to 83 percent for men, and Gibbson and

Kasim (1991) find that in Malaysia 95 percent of women repay their loans compared to 72 percent of the men.

2.6.1.3 Repayment Performance in Group Lending

A common characteristic of group lending is that the group obtains the loan under joint liability, so each member is made responsible for repayment of credits of his/her peers. Joint liability, the threat of losing access to future credit, provokes members to perform various functions, including screening of loan applicants, monitoring the individual borrower‘s efforts, fortunes and shocks, and enforcing repayment of their peers’ loan (Zeller, 1996).

In group-lending programs, the functions of screening, monitoring and the enforcement of repayment are to a large extent, transferred from lender (MFI) to group members. In addition, groups may also have a comparative advantage in enforcement of credit repayment. Group members can potentially employ social sanctions or even seize physical collateral from the defaulter (Besley and Coate 1995). Moreover, group members appear to be in a better position to assess the reason for default and to offer insurance services to members who are experiencing shock that are beyond their control (Zeller 1996).

Despite all the above-mentioned benefits, group lending is not without its problems. There are several factors that may undermine the repayment performance in group lending. Zeller (1996), discusses that since the risk of credit default by an individual is shared by his or her peers, a member may choose a riskier project compared to that in the case of individual contract, and may count on other members to repay his or her credit (i.e. adverse selection of risky projects). The study further notes that repayment incentives for a good borrower will vanish under joint liability, when he or she expects that significant number of peers will default.

Reikne (1996), assessed the factors that lead to the failure of group based lending system in urban areas and went on to the extent recommending an individual credit system for a better credit repayment. According to him presence of high geographical mobility, low attachment to specific neighborhoods and peer groups consisting of competitors are the factors that frustrate the solidarity of groups in urban areas, and hence group lending is more applicable to the rural environment than to urban society.

2.6.1.4 Three C's of Microcredit

Most literatures describe three "Cs" that should be observed to reduce default when providing microcredit: character, capacity, and capital (Njeru, 2012). The author describes the three "Cs" as follows: the first "C" is character that refers to the way a person has handled past debt obligations. Paying regard to character includes determining the borrower‘s credit history and personal background, honesty, and reliability to pay credit debts, the second aspect is considering a borrower‘s capacity involves determining how much debt he or she can handle comfortably by analyzing income streams and identifying any legal obligations that could interfere with repayment, and the last is about capital; this refers to a borrower‘s current available assets, such as real estate, savings, or investments that could be used to repay debt if income is unavailable.

2.6.1.5 Loan Products Characteristics

According to Ledgerwood, (2013), loans are structured based on client demand, capabilities of the provider, and risk management requirements. As different researchers pointed out, the core components of a loan are loan size, loan term, repayment terms, lending methodology, and collateral or security.

Loan size: loan sizes vary depending on need and can increase over time based on client needs, debt capacity, and credit history; loans should not increase simply as a function of continued borrowing. The loan size can determines the length of time the loan is intended to be outstanding; loans are usually designed to be repaid in periodic installments over the loan term or at the end as a lump sum, ideally matched to the borrowers' cash flows (Ibid, 2013).

The length of time the loan is intended to be outstanding determines the time and frequency of repayments. Frequent repayments serve to reduce credit risk but on the contrary it can increase the transaction costs and may make loans less accessible for borrowers in remote areas or those with infrequent cash flows. In general, depending on how, when, and where payments are made, the risk of default may increase if the borrower is not able to manage larger installments or a final lump sum. Therefore, it is important to restructure loan products as per clients need and capacity to pay that meets client needs and provided in a safe and transparent manner.

Loan collateral or security is another issue of credit product characteristic. Clients of MFIs earn low income and often have minimal assets to pledge for loans; property, land, machinery, and other capital assets are often not available. Because of this, group guarantee substitutes collateral. To minimize the risk of loan, saving, specifically compulsory saving is used as alternative collateral (Brau, 2004). Practically MFIs require clients to hold a balance (usually stated as a percentage of the loan) in compulsory savings (or as contributions to group funds) for first and subsequent loans. Compulsory savings differ from voluntary savings in that they are not generally available for withdrawal while a loan is outstanding. In this way compulsory savings act as a form of collateral.

2.6.1.6 Client Screening

Screening clients to ensure that they have the willingness and ability to repay a loan is the first step of limiting credit risk. As Felix, (2010), pointed out in analyzing client creditworthiness, microfinance institutions typically use the five C's client screening summarized below.

Character	An indication of the applicant's willingness to repay and ability to run the enterprise
Capacity	Whether the cash flow of the business (or household) can serve loan repayments
Capital	Assets and liabilities of the business and/or household
Collateral	Access to an asset that the applicant is willing to cede in case of non-payment, or a guarantee by a respected person to repay a loan in default
Conditions	A business plan that considers the level of competition and the market for the product or service, and the legal and economic environment

2.6.1.7 Client Visit

As Jemal (2003), discusses frequent visits help to ensure that the client is able and willing to repay the loan. Frequent visits also allow the loan officer to understand his or her clients' cash flows and the appropriateness of the loan (amount, term, frequency of payments, and so forth). Moreover, client visit contribute to developing mutual respect between the client and the loan officer as they learn to appreciate and understand each other's commitment to their work, which can lead to stronger relationships that benefit both the clients and lenders

(Ibid 2003). However, more frequent client visits lead to additional costs that need to be considered.

2.6.1.8 Loan Default

According to Njeru, (2012) the most common reasons for the existence of defaults are the following: if the MFI is not serious on loan repayment, the borrowers are not willing to repay their loan. The MFI staffs are not responsible to shareholders to make a profit; clients' lives are often full of unpredictable crises, such as illness or death in the family; if loans are too large for the cash needs of the business, extra funds may go toward personal use; and if loans are given without the proper evaluation of the business.

In order to achieve self-sufficiency, reducing default rate is very crucial for any MFIs. MFIs can take a number of actions to reduce default rate or the amount of arrears. Stigliz and Weiss (1981), writes about some strategies for preventing or reducing default. According to them, giving training to the clients prior to the disbursement of each loan and financial incentives for the loan officers can be used to lower the default rates.

In addition, quick follow-up visits right after a missed payment and the formation of strong solidarity groups are also key to preventing high default rate. Limiting geographic scope reduces time and money wasted traveling from the office to clients' businesses. If loan officers have a specific geographic region, they can visit clients more often and it helps to develop relationships in their neighborhoods.

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2.5.1.9 Real Incidences of Defaults in Microfinance

According to Njeru (2012), it can be concluded that the MFIs are only concerned about extending financing without much effort being made to provide any form of post disbursement supervision. As reported by Njeru (2012), post-disbursement supervision is highly relevant in ensuring the success of microfinance loan due to the fact that around 80 percent of the clients of microfinance are in lower level of education or illiterate, especially women. Furthermore, around 82 per cent of these clients had no business experience before joining the microfinance program, while the rest 18 per cent had some basic business experiences.

Generally, the MFIs provide loan without any technical assistance except for some briefing of around five to ten minutes to the recipients. It should be emphasized that the technical assistance is just as important and should complement the financial assistance in ensuring the success of the business project (Nawi and Shariff, 2013).

According to Samuel (2011), another reason for loan default in microfinance is focusing on extending lending or financing without much effort being done to provide any form of post-disbursement supervision. Post-disbursement supervision is highly relevant in ensuring the success of microfinance business due to the fact that most microfinance clients are illiterate. Moreover, they have little or no business experience before joining the microfinance program.

Generally repayment performance of microfinance institution could be evaluated in terms of collection capacity and portfolio risk. In this regard, repayment rate and portfolio at risk (PAR) are the best measures of repayment performance (Arsyad, 2005).

A. Repayment Rate

According to Arsyad (2005), repayment rate measures the amount of payment received with respect to the amount due. It also measures the rate of loan recovery and indicates recovery performance, but it does not indicate the quality of the portfolio. But, this doesn't mean that repayment rate is not useful, 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. According to Godquin (2004), repayment Rate is calculated as the amount paid (minus any prepayments) divided by the sum of the amounts due plus the amounts past due. This ratio has fallen out of favor among microfinance practitioners because it hides a looming arrears problem. Repayment rate less than 97 percent shows poor performance in collecting the loan as per maturity period (Ibid, 2004).

$$\textbf{Repayment Rate} = \frac{\textbf{Aamount received (current and past due)less prepayments}}{\textbf{Total Amount Due} + \textbf{Amount Past Due}}$$

B. Portfolio at Risk (PAR)

According to Arsyad (2005), the most widely used measure of portfolio quality in the microfinance industry is Portfolio at Risk (PAR), which measures the portion of the loan portfolio "contaminated loan" by arrears as a percentage of the total portfolio. It is easily understandable, does not understate risk, and is comparable across institutions. A microenterprise loan is typically considered to be at risk if a payment on it is more than 30 days late (PAR_{30}). This rule is much stricter than what is practiced among commercial banks, but it is justified given the lack of bankable collateral in microfinance.

$$Portfolio\ At\ Risk\ (PAR_{30}) = \frac{Total\ portfolio\ with\ arrears > 30\ days\ period\ end}{Total\ Outstanding\ Gross\ Portfolio}$$

The ratio shows the portion of the portfolio that is "contaminated loan" by arrears and therefore at risk of not being repaid. The ratio also indicates that, the older the delinquency, the less likely that the loan will be repaid. In general, any PAR_{30} exceeding 10% should be cause for concern, because unlike commercial loans, most microfinance loans are not supported by collateral (Warue, 2012). Portfolio at risk estimates total risk to the portfolio by considering the total value of loans which have payments in arrears instead of only the value of the payments as noted above because, the entire loan is assumed at risk if a client has late or missed scheduled payments. Warue (2012) discussed that, PAR is a more realistic measure of the threat to the overall portfolio that indicates how MFI is efficient in making collections. Therefore, the higher the PAR indicates low repayment rates, as indication of inefficient microfinance institution.

Table 2: Past due loan

S/N	Arrears (in days)	Years with uncollected loan balance				
		2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
1	1-30	14,843.80	17,212.10	27,379.16	47,083.26	12,753.95
2	31-60	15,368.79	39,207.86	12,816.63	12,918.88	20,180.08
3	61-90	19,188.76	28,383.09	4,442.58	29,872.28	12,013.56
4	91-180	101,669.41	87,240.82	1,591,439.38	16,483.36	42,975.37
5	181-365	125,246.64	200,598.08	160,320.85	76,591.56	74,911.87
6	>365	949,574.12	1,075,199.88	1,641,096.65	1,494,988.68	76,339.82
Total		1,225,891.52	1,447,841.83	3,437,495.25	1,677,938.02	239,174.65

Source: MMFI (2013)

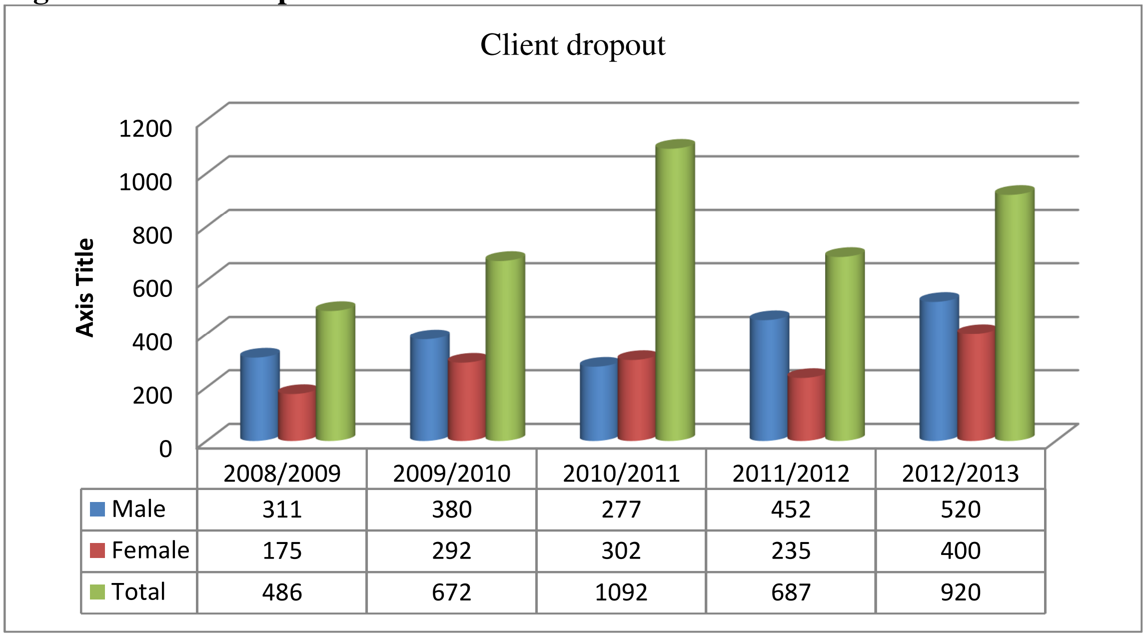
2.6.2 Client Retention Performance

Client retention refers to the maintenance of continuous trading relationships with clients for a substantial period of time. The substantial time exceeding five years is regarded as a successful effort of client retention (Mulumba, 2011). Retaining clients increases the profits of a firm which facilitates further investments leading to expansion, because when clients are retained for longer period of time the acquisition costs of the microfinance institution are lowered in the long run which means that client retention is related to the profitability of a firm.

The more productive clients are retained the lower the acquisition costs and the higher the productivity of loans and outreach involving the mobilization of new clients than recovering stuck loans as dictated by the credit policy. The efforts followed by MFI to retain clients are reflected in the commitment of management and staff to offer excellent client services which yields satisfaction and trust through communication. Client retention is more than giving a client what they want but it involves exceeding their expectations which makes them to become loyal advocates for the MFI (Ambe, 2009).

The number of clients leaving every month and its effect on the sustainability and outreach gives the general view of the exit situation in the microfinance institution; however, it is important to understand the patterns and influences of client drop out (Dackauskaite, 2009). Thus, an important characteristic of exit client is the number of consecutive loan cycles he/she participated in before exiting. Maximambali et al., (1999), noted that longer relationship is beneficial for both the client and the lending institution implying that the microfinance institution should focus on the attraction and retention of the client group that tend to stay longer (Ibid, 1999).

Figure 1: Client dropout



Source: MMFI (2013)

Client retention (and its complement, client desertion) have significant wide ranging implications for an institution.

$$\textbf{Retention Rate} = \frac{\textbf{Total number of clients at the end of the period}}{\textbf{Number of new clients during the period + Total number of clients at the beginning of the period}}$$

The retention ratio measures the degree to which the MFI is trying to retain its existing loan clients through repeat loans. According to Berry (2010), there is no standard rate for client retention rather it is measured based on annual plan for dropout. The MFIs annual plan should incorporate the number of clients who will exit from the institution (Ibid, 2010). According to Mulumba (2011), a retention rate more than 85% is considered as good performance. Most MFIs experienced increased dropout rates because of management problems, clients' business condition, and loan default due to improper loan utilization (Hossain, 1988; Hulme and Arun, 2009; Islam, 2007; and Mulumba, 2011).

2.6.3 Outreach Performance

Outreach is defined as the ability of MFI to provide high quality financial services to a large number of clients. The indicators of outreach performance are the number of clients, percentage of female clients, the amount of savings deposits, the value of the outstanding loan portfolio, etc (Yitay 2011). Outreach performance requires microfinance institutions to reach a large public, and to have a significant and increasing volume of activities (savings, credit, insurance, etc.).

Nawi and Shariff, (2013), on their study confirms the fact that increasing the number of borrowers per MFI would lower the average operating cost and would raise total operating costs less than proportionately with the number of borrowers. This is a clear indication for an increasing the number of borrowers per field officer would raise the sustainability indicators in financial and operational self-sustainability.

They have also indicated on their finding that increasing the number of borrowers per field officer seems to be the most promising way to reduce costs, especially in group-based delivery methods. This would not hurt repayment despite a likely lightening of the monitoring. Therefore, the number of active borrowers influences the operational and financial sustainability of microfinance institutions positively according to this finding.

Breadth (number of clients served) matters because of budget constraints; the wants and needs of the poor exceed the resources earmarked for them.

Self-sustainable organizations with wide breadth may reach as many of the very poor as poverty-oriented organizations with narrow breadth (Dackauskaite, 2009). According to CGAP (2009), the best measurement of outreach (breadth or number of clients served) is the number of clients or accounts that are active at a given point in time.

A. Growth in Number of Active MF Clients

Measures the ability of the MFI to expand its operations through increases in its active clients referring to those with outstanding MF loans with the institution; the higher this ratio the better it indicates the efforts of the MFI.

$$\text{Growth in Number of Active MF Clients} = \frac{\text{Ending Active Borrrer} - \text{Beginning Active Borrere}}{\text{Beginning Active Borrowerss}}$$

B. Percent of women borrowers

This ratio indicates how gender sensitive the institution is in its provision of financial services

$$\text{Percent of women borrowers} = \frac{\text{Number of women borrower during reporting period}}{\text{Totaal number of borrowers during reporting period}}$$

2.6.4 Empirical Evidence

Abreham (2002) studied on the loan repayment and its determinants in small-scale enterprise financing in Ethiopia around Zeway area. He found that other sources of income, education, and work experience related economic activities before the loan are enhancing loan repayment. While extended loan repayment period is influence the repayment performance negatively.

Retta (2000, cited in Abafit, 2003) studied loan repayment performance of women fuel wood carriers in Addis Ababa. His finding is frequency of loan, supervision, suitability of repayment period and other income sources are found to encourage repayment hence reduce the probability of loan default. While educational level is negatively related to loan repayment.

Bhatt and Tang (2002) studied the determinants of loan repayment in microcredit evidence from programs in Kenya. Their study showed that women has low repayment rate because some women entrepreneur in the study might have been engaged in high risk and low return activities. Godquin (2004) also examined the microfinance repayment performance in Bangladesh. His result is female borrowers did not proven to have a significant better repayment performance. The size of loan and the age of the borrower showed the negative impact on the repayment performance. On the contrast, Abreham (2002) showed in his study male borrowers are the undermining factors for repayment.

Zeller (1996) analyzed the determinants of repayment performance of credit groups in Madagascar. His finding is groups with higher level of social cohesion have a better repayment rate. Moreover, the programs that provide saving service to their members have a significantly higher repayment rate. Olagunju and Adeyemo (2007) and Oke et.al. (2007) also analyzed the determinants of repayment decision among small holder farmers in southwestern Nigeria. The result showed that the number of visits made by loan officers to the borrowers, higher level of education, and time of loan disbursement would have a better repayment performance. Moreover, having access to business related information and providing training to the clients are increasing the loan repayment rate of the borrowers.

Though the availability of literatures on performance and sustainability of Ethiopian microfinance industry is limited, studies by Kereta in (2007) and Ejigu in (2009) are significantly promising. Kereta (2007) conducted a study on outreach and financial performance analysis of MFIs in Ethiopia, his findings shows that, with regard to outreach angle MFIs outreach shown an average increment of 22.9 percent in the period from 2003 to 2007. But their reach to the disadvantages particularly to women is limited to 38.4 percent.

As mentioned above, various studies were conducted on the determinants of loan repayment performance in different countries. Most of these studies were focused on the credit associated with agricultural activities and they identified the socio-economic factors that affect the loan repayment rate of rural household. However, in the literature review nothing was indicated about the factor influencing the loan repayment performance of urban borrowers. Thus, this research could focus on the borrowers who made various types of business in urban area.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

Introduction

This chapter deals with the overall research design and methodology. Accordingly, the research design, population, sample size, sampling technique, methods of data analysis, data collection procedure, type of data, and tools of data collection are presented with their order.

3.1 Research Design

A research design is an advance planning of the methods to be used and the arrangement of conditions for collection and analysis of data in a manner that fits the research objective and it provide the blueprint for the collection, measurement and analysis of data (Kothari, 2004).

Research design is needed because it facilitates the smoothing of the various research operations, thereby making research as efficient as possible yielding maximum information with minimum expenditure of effort, time and money. As Kothari (2004) explained, research design stands for advance planning of the methods to be adopted for collecting the relevant data and the techniques to be used in their analysis, keeping in view the objective of the research and the availability of time and money.

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. The authors explained that descriptive research design is used when the data collected describes persons, organizations, settings or phenomena. This approach has been selected as an appropriate for the study, because it captures data to provide in clear information about the factors affecting the operation performance of MMFI in Addis Ababa.

3.2 Population, Sampling Techniques, and Sample Size

3.2.1 Population

According to Swanson and Holton (2005), population' refers to the total of items about which information is desired. The population can be finite or infinite. The population is said to be finite if it consists of a fixed number of elements so that it is possible to enumerate it in its totality. The symbol 'N' is generally used to indicate how many elements (or items) are there in case of a finite population. The total number of target population undertaken for this study was 566 active borrowers of MMFI in Addis Ababa and around the capital city..

3.2.2 Sample Size

The primary function of sampling strategy is to identify the target population of the study which enables to determine the sample size (Kothari, 2004). According to Singh, (2006), sampling is the process of obtaining information about an entire population by examining only a part of it. The author further stated that sample should be truly representative of population characteristics without any bias.

Nasiurma (2000) pointed out, that the size of sample should optimum, neither be excessively large, nor too small because an optimum sample is one which fulfills the requirements of representativeness. While deciding the size of sample, researcher must determine the desired precision and an acceptable confidence level for the estimate.

Technically, the size of the sample depends upon the precision the researcher desires in estimating the population parameter at a particular confidence level. According to Nasiurma, (2000), the sample size of the population is computed using the formula;

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

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.

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 (566 borrowers), 85 borrowers were taken as a sample for the study.

$$n = \frac{566(0.5^2)}{0.5^2 + (566-1)0.05^2} = 85$$

3.2.3 Sampling Techniques

It is a plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample. 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.

This enables the researcher to get more precise estimates for each stratum and by estimating more accurately each of the component parts. Simple random sampling was used to select the sample from each stratum. Simple random sampling refers to a sampling method that has the following properties (Ibid, 2009).

- The population consists of N objects.
- The sample consists of n objects.
- All possible samples of n objects are equally likely to occur.

An important benefit of simple random sampling is that it allows researchers to use statistical methods to analyze sample results (Ibid, 2009). The researcher used the lottery method to obtain a simple random sample. Each of the N population members was assigned a unique number. The numbers are placed in a bowl and thoroughly mixed. Then, the researcher selects n numbers. Population members having the selected numbers were included in the sample.

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.

3.3 Source of Data and Tools of Data Collection

3.3.1 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.

3.3.1.1 Primary Data source

Primary data are those which are collected fresh and for the first time and thus happen to be original in character (Kothari, 2004). Primary data was collected through questionnaire that solicits ideas related to the research problem from respondents. The questions sought to address the research objective and question related to the study. In addition to questionnaires designed and distributed to sample respondents an interview was conducted with branch loan officers and branch managers, and operation manager at the head office level.

3.3.1.2 Secondary Data Source

The secondary data is 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.

3.3.2 Tools of Data Collection

3.3.2.1 Questionnaire

This method of data collection is quite popular, particularly in case of big studies. Questionnaires were prepared translated in to Amharic language and distributed to sample respondents with the help of two experienced data collectors. Through this method the relevant data has been collected from sample respondents.

3.3.2.2 Interview

According to Swanson and Holton (2005), the interview method of collecting data involves presentation of oral stimuli and reply in terms of oral responses. This method can be used through personal interviews and, if possible, through telephone interviews. To collect clear and relevant data the researcher used personal or face-to-face interview, because face-to-face interview method enables the interviewer asking questions for more clarification as the situation may permit to ask. The qualitative data was collected through face-to-face interview with branch loan officers, branch managers, and operation manager at the head office level.

3.4 Procedures of Data Collection

Respondents were identified, and in line with research question, and study objective respondents are asked through questionnaire and interview. First respondents were identified and the required data that addresses the research questions and objectives were collected through questionnaire and interview. Questionnaires were distributed to respondents and the relevant data were collected with the help of assistant data collectors but they are closely supervised by the researcher. The interview with MMFI officials was administered only by the researcher. After all the relevant data were collected, the information summarized and analyzed with the help of excel and SPSS version 20.

3.5 Methods of Data Analysis

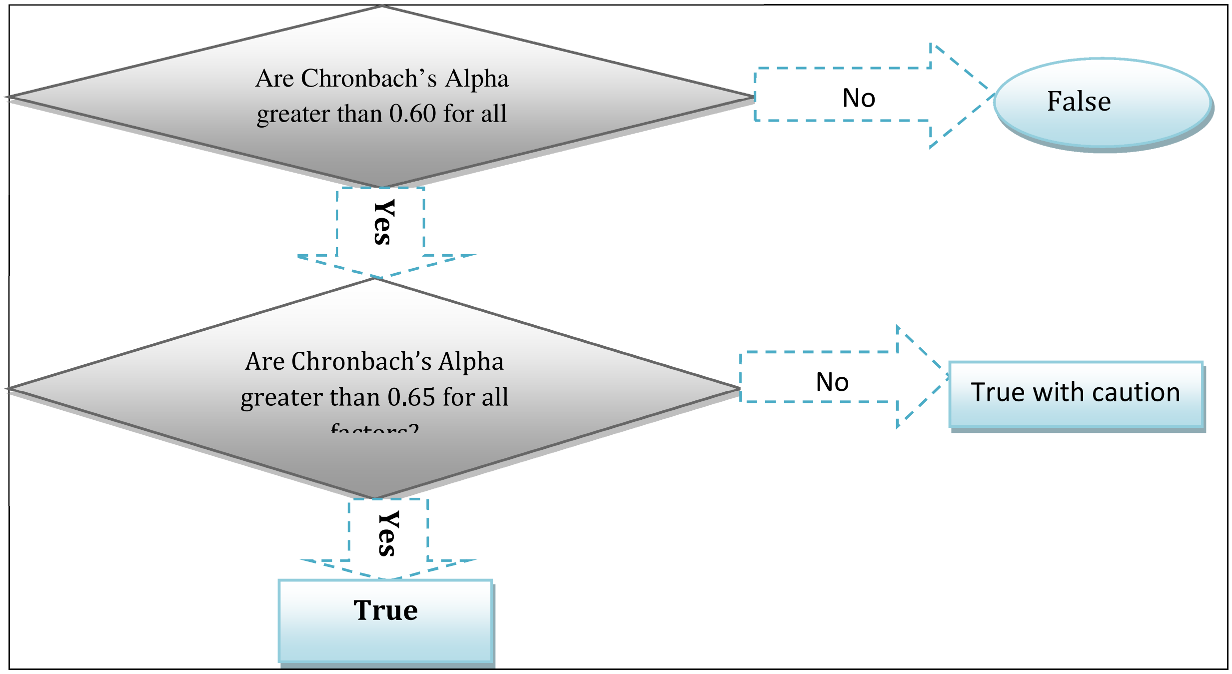
Data analysis is the application of reasoning to understand the data that have been gathered from respondents and the appropriate analytical technique of the analysis mainly determined by the characteristics of the research design and the nature of the data gathered (Sapsford and Jupp, 2006). The data (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.

3.6 Reliability Test

Reliability refers to the capacity of a measure to produce consistent results. Cronbach's alpha, is probably the most commonly used test for scale reliability (Donna, 2010)). There are several ways to calculate reliability. But, the most commonly accepted measure in business research is internal consistency reliability using Cronbachs alpha. Bryman (2008) notes that to assure the reliability (repeatability) of quantitative data, Cronbach's Alpha can be used to the critical value of 0.70. As a step forward to enhance the quality of this thesis, reliability analysis was conducted to each variable of the instrument under the summative response scale excluding questions related to demographic characteristics of respondents.

Following Vanderstoep and Johnston (2009), the reliability measure for the dependability of the instrument to test for what it was designed to test was 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 and 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. The following diagrammatic presentation is sketched by the researcher as a guide to the decision process for answering problems about reliability analysis of the instruments in this thesis.

Fig. 2.Schematic representation of the decision process of the reliability test



Source: Bryman, (2008)

Based on the diagrammatic presentation sketched above, the decision process regarding the reliability test of the instruments planned to be used in the study has been done by distributing the questionnaire to 40 respondents during the pre-test stage. As indicated in table 3 bellow, the internal consistency reliabilities for each of the scales is calculated. Hence, the result shows an alpha coefficient (r=0.820) is a clear indication of strong item covariance and suggests that the sampling domain in this study has adequately been captured. Besides, the result makes sure that the instruments are consistent and dependable that offers the authorization to proceed with the remaining tasks.

Table 3. Reliability Statistics Result

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No. of Items
0.692	.720	24

Source: calculated by the researcher (2014)

According to Sunders, et.al. (2009), validity is the soundness or rationality; whether the results be in reality about what they become visible to be or the degree to which results obtained from the analysis of the data actually represents the phenomenon under study. The validity of data gathering instrument is confirmed by the capacity and willingness of the respondents to provide the information requested. In order to make the questionnaires valid, relevant and objective to the problem; it was properly commented by the advisor, and it also tested on available respondents, and based on the issues which were not properly clear by the respondents were corrected and refined.

Finally, the refined version of the questionnaires were printed, duplicated and dispatched to the respondents.

3.7 Ethical Consideration

This study carefully adheres to the ethical principles with respect to the data collection and used in the study. First, revisiting the literature all the ideas and concepts taken from other scholars are acknowledged. In addition, the data obtained through questionnaire from borrowers of Meklit Microfinance Institution remain confidential as stated on the questionnaire. Moreover, the information secured through an interview with the institution’s officials and staff was only used for the purpose of the study and the recording or the written notes will not pass to the third party at any circumstances.

CHAPTER FOUR

RESULTS AND DISCUSSION

INTRODUCTION

In the preceding chapters, an attempt has been made to assess the basic theoretical debates, conceptual and empirical findings that are supposed to serve as stepping stones for the analysis. In line with this, this chapter presents the presentation, analysis and interpretation of the data gathered from the sample respondents. It is organized in to three parts. Part one analyses the repayment performance of Meklit Microfinance Institution (MMFI). Part two examines client retention performance in terms of dropout and possible problems for dropout. Part three reviews the outreach performance in terms of number of clients served, and women participation. In each part, the data obtained through questionnaire and interviews were interpreted in combination.

4.1 Characteristics of the Respondents

Table 4: Background information of respondents

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

Source: own compiled from questionnaire response

4.1.1 Sex

Table 4 above: 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.

4.1.2 Education

Table 4 above shows that the clients are of varying educational background. 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. Table 4, shows most of the clients have below TVET level education. This implied that borrowers would not understand well the loan agreement and other business issues.

Table 5: 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)

Table 5 shows that number of active borrowers in MMFI are more in individual business loan. Except the last year (2012/2013) above 50% of borrowers are borrowed in individual business loan lending system. In all five years data above the highest number of borrowers are individual business borrower. On the other hand the numbers of borrower in individual consumption loan are 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 loan especially business loan.

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 responsible.

With the continuation of interview and loan contract documentation, it was learned that, 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 salaried base. 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 field the required collateral, they may leave the institution (unable to shift from group to individual). Moreover, the institution will incurred more cost to screen and follow up new clients, and it can be left with limited number of clients for long period of time.

4.2 Analysis on the operational performance of MMFI

4.2.1 Repayment Performance

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

Table 6: 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 loan size.	No.	8	22	10	35	10	85
		%	9.4	25.9	11.8	41.2	11.8	100
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

Source: primary data

6.1 Loan utilization (table 6 item 1)

As it is indicated in table 6, 38.8% (33) and 11(12.9%) of respondents are agree and strongly agree respectively that the borrowed money is spending properly for the intended purpose. On the other hand 32.9% (28) and 9.4% (8) of respondents are 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 were used the loan properly for the intended purpose as they plan. Interview responses from managers and loan officers were 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 (personal communication, 2014). This can be evidenced by respondents too, because about 42.30% (32.9%+9.4%) of respondents are agree with improper use of loan. This indicated that, clients who are not utilize the loan properly for the intended purpose will face a 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.

6.2 Repayment incentives (table 6 item 2)

Concerning the issue of repayment incentives (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' response of disagreement on repayment incentives (personal communication, 2014). According to interviewed manager's response, MMFI believed 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. This implies that the institution is employed a stringent collection policy.

6.3 Follow up or post-loan supervision (table 6 item 3)

As it is shown from the table 6 (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 issue 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 in regarding to 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 is supervised by branch manager and operation manager. This indicates the institution gave more attention especially for higher loan size.

6.4 Checking client's business feasibility/pre-loan supervision (table 6 item 4)

Concerning the issue of pre-loan supervision (item 4), over 50% (43) of respondents expressed their dissatisfaction they are not happy about 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 discovered 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 them.

Table 7: Other repayment performance issues

No.	Item		Frequency	Percent
1	Have you got training from Meklit MFI?	1 Yes	17	20.0
		2 No	68	80.0
		Total	85	100.0
2	Do you borrow from other institution (s)?	1 Yes	21	24.7
		2 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
		Other MFIs	16	18.8
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

Source: Primary source

7.1 Training (table7 item 1)

Table 7 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 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 (personal communication, 2014).

7.2 Double loan (table7 item 2)

Table 7, item 2: shows 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 check 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 borrowers hide information or fill false information.

7.3 Sources of double loan (table7 item 3)

As indicated in table 7 of 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 defer double loans.

7.4 Repayment period suitability (table7 item 4)

According to table 7 above, 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.

7.5 Repayment Status (table7 item 5)

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.

7.6 Default reason (table7 item 6)

Responses from Some 31% (26) of the borrowers in arrears, 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.

Table 8: 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)

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.

Repayment rate less than 97% is a sign of poor repayment performance and high loan default (Ibid, 2004). Table 8, 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 2012/20134 reached to 97%.

As the result indicated above the repayment performance of MMFI was not satisfactory Godquin (2004), stated that repayment rate less than 95% shows poor collection performance. In view of this the institution repayment performance for four consecutive years was inefficient, but it showed an improvement in the last year 2012/2013.

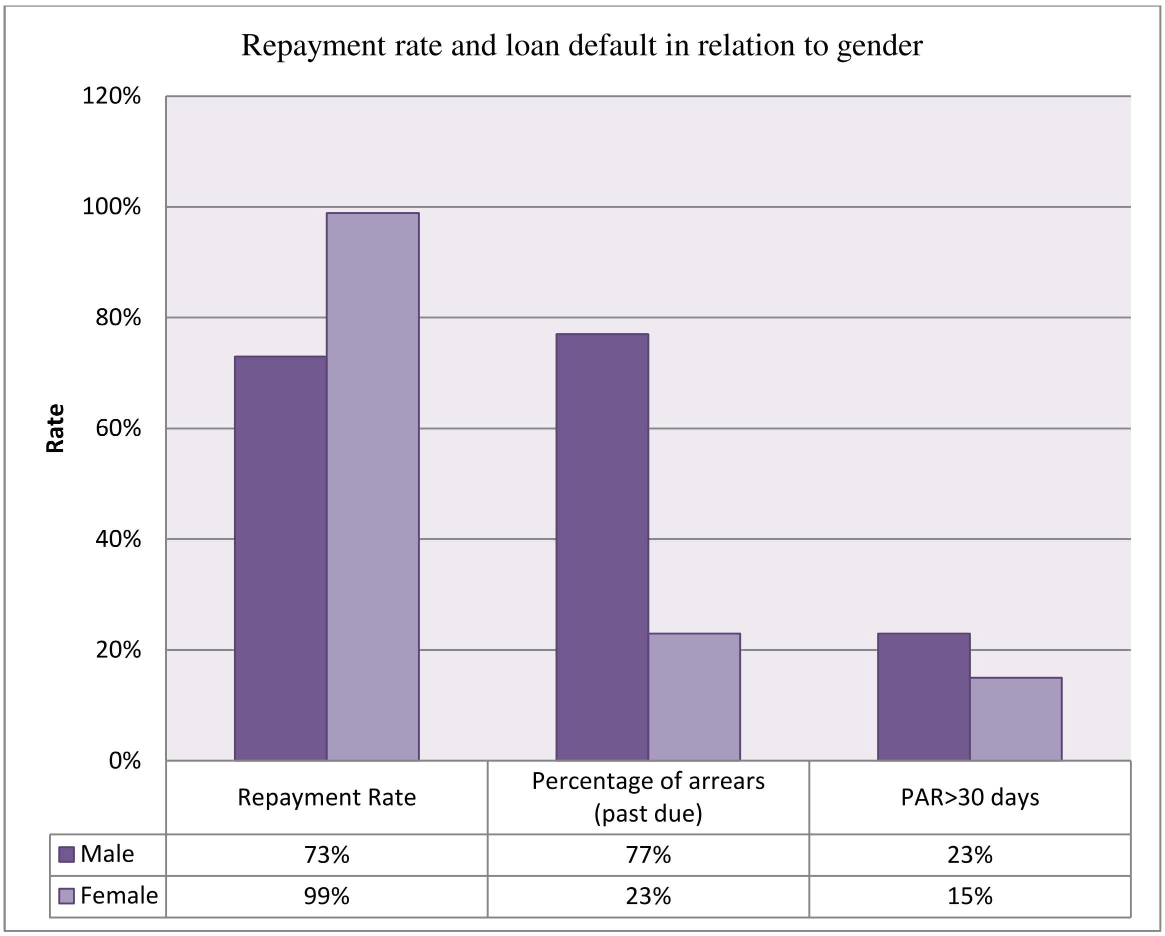
Table 9: Repayment Rate, Percentage of arrears, and PAR>30 days in relation to gender

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 9 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 tine or on due better than their counter parts. Empirical studies show that women borrowers perform better in relation to loan repayment (Felix, 2011, and 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, and 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 the table 9 above shows 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 3: 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. On the other hand the higher the loan default and risk uncollectible, the lesser the repayment rate.

Table 10: 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 days	Amt.	75,433.21	104,936.88	42,530.45	34,484.16	192,096.37
	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)

The ratio in table 9 shows, the percentage of loan at risk which is not being paid, or it shows the risk of not to be repaid. According to the above data the PAR>30 days was 20% in 2008/2009 and 2011/2012, it was 23% in 2009/2010, 25% in 2010/2011, and in 2012/2013 the PAR>30 was 7%.

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 also indicates there was better repayment performance of the same year (2012/2013).

Table 11: 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)

According to Table_ 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.

4.2.3 Retention Performance

Table 12: Loan cycle

How many times you borrow from Meklit MFI?	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

Source: primary data

As it can be observed from the table 10, 40% (34) of respondents are borrowed 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 are reached to fourth cycle, and the other 4.7% (4) are 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 borrower 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.

Table 13 Repayment Rate and PAR>30 days in Loan Category

[Commulative data (2008/2009-2012/2013 or ሰኔ 2001 ዓ.ም -ሰኔ 2005 ዓ.ም)]

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_ 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 concentrating more on individual lending system.

In relation to PAR>30 days, table_ shows 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 implied that the risk of loan not to be collected is less in individual loan compared to group loan.

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

Table 14: Retention Performance

No.	Item	Agreement Level						
			5	4	3	2	1	Total
1	Meklit Microfinance Institution 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	Meklit Microfinance Institution 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 Meklit Microfinance Institution's services again in the future	No.	15	20	30	15	5	85
		%	17.65	23.53	35.29	17.65	5.88	100
8	I will recommend Meklit Microfinance Institution'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

Source: primary data

11.1. Repayment history and payment capacity of borrower (table 11, item 1)

Table 11, item 1 depicts 56 % (48) of respondents agree, 25.9% (22)of respondents disagree on the issue that MMFI lending system is not 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.

11.2 The customer handling practice of the institution (table 11, item 2)

Concerning the customer treatment issues table, item 2, 56.5%, (48) and 12.9% (11) of respondents are disagree and strongly disagree respectively on the institution's customer handling practice. On the other hand 17.6% (15), and 2.4% (2) of respondents are 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 (personal communication, 2014). They added also training is provided every year for operational staffs to build up their customer handling capacity.

11.3 Loan waiting time until disbursement (table 11, item 3)

Regarding to item 3, 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 on fast loan disbursement. The majority of respondents are agreed for fast loan disbursement. This indicated that the lender is efficient in loan process and disbursement.

11.4 Office proximity (table 11, item 4)

In relation to office location item 4, 47.1%, (40) and 17.6% (15) of respondents disagree and strongly disagree respectively on 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 no showed their agreement or disagreement on the issue of office location suitability. From the result we can conclude that the location MMFI office is not convenient for borrowers to get the service with the shortest time and minimum cost. This may force clients to look 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 confortable for service efficiency, but due to lack of financial resource the institution limited the number offices. Thus, clients have got the service from those distant branches. Moreover, both loan disbursement and collection takes place in the office makes the situation serious.

11.5 Late payment arrangement (table 11, item 5)

Regarding to extra time arrangement for late payers item 5, 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 not decide their level of agreement. From the table regarding extra time arrangement, it can be deduced that the institution is not flexible for the treatment of late payment even with efficient evidence for default attached with.

11.6 Loan size (table 11, item 6)

With regard to loan size (item 6), 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 loan size. The rest 8.2% (7) respondents are indifferent of the issue. It was evident that most of the respondents are claimed 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 regarding the issue of loan size.

11.7 Decision about future loan repeat (table 11, item 7)

Table 11, issue number 7 shows 35.29% (30) of respondents are not express their plan either to use or not to use, 17.65% (15) and 5.88% (5) of respondents are disagree and strongly disagree for next service from MMFI, 23.53% and 17.65% (15) of respondents are agree and strongly agree to repeat using the service of MMFI. Thus, it can be deduced that most of the respondents are not sure to plan using the service of MMFI in the future, they lacks full confidence to decide future reputation.

11.8 Service recommendation to others (table 11, item 8)

Table 12 of item 8 represents, 31.8% (27) and 10.6% (9) of respondents are disagree and strongly disagree respectively with the issue of recommending MMFI's service to other. On the other hand 25.9% (22) and 14.1% (12) of respondents are agree and strongly agree respectively to recommend the service for others, whereas 17.6% (15) of respondents are skip from expressing their level of agreement concerning service recommendation to other users. 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 product or service.

11.9 Fairness of collateral requirement (table 11, item 9)

Table 11 of the last issue (item 9) also shows 32.9% (28) and 18.8% (16) of respondents are disagree and strongly disagree respectively with the fairness of collateral requested by the institution. On the other hand 28.2% (240 and 14.1% (12) of respondents are agreed and strongly agree respectively that the collateral requirement is fair. The other 5.9% (5) of respondents are neutral. This implied 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 were also interviewed for the fairness of collateral requirement. They explained that many customers face a problem to full fill 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.

Table 15 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

Source: Primary data (2014)

According to table 12, 65.9% (56) of respondents believed the interest rate is high, 31.8% (27) of respondents believed that the interest rate of MMFI is moderate, and 2.4% (2) of respondents evaluate the interest rate as low. Since the majority of respondents claimed with high interest rate, it can be revealed that the interest rate of the institution may weaken financial strength of borrowers. Thus, it may lead to client's dropout from the institution.

Table 16: Retention of rate

Years	Sex	Active client (end) (A)	New client (B)	Active client (Beginning) (C)	(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)

The result in table 13 shows that the retention rate of MMFI during five consecutive years is on average 74%. It implies MMFI retention rate is not in a good position that needs due attention, with in this range the retention rate of women borrowers is better than that of men. This indicated that participating women borrower has a positive advantage for longer relationship and better loan repayment too. The table also shows retention rate of MMFI is decreased 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. The result shows that there is less client retention rate in MMFI and women clients retained more.

4.2.4 Outreach performance

Table 17: Client promotion (how clients join MMFI for the first time)

Through which means you join Meklit Microfinance Institution (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

Source: Primary data

Table 14 shows 51.8% (44) of respondents join the institution through information from their 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 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, from transport users in the bus and/or taxi. According to the result shown in table 14 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).

As indicated in the literature of chapter two breadth of outreach performance is measured by growth in number of active clients. According to the secondary data gathered from MMFI in five consecutive years' operation plan and performance (actual) operation report presented below shows less promotion effort is recorded by MMFI.

Figure 4: Promotion

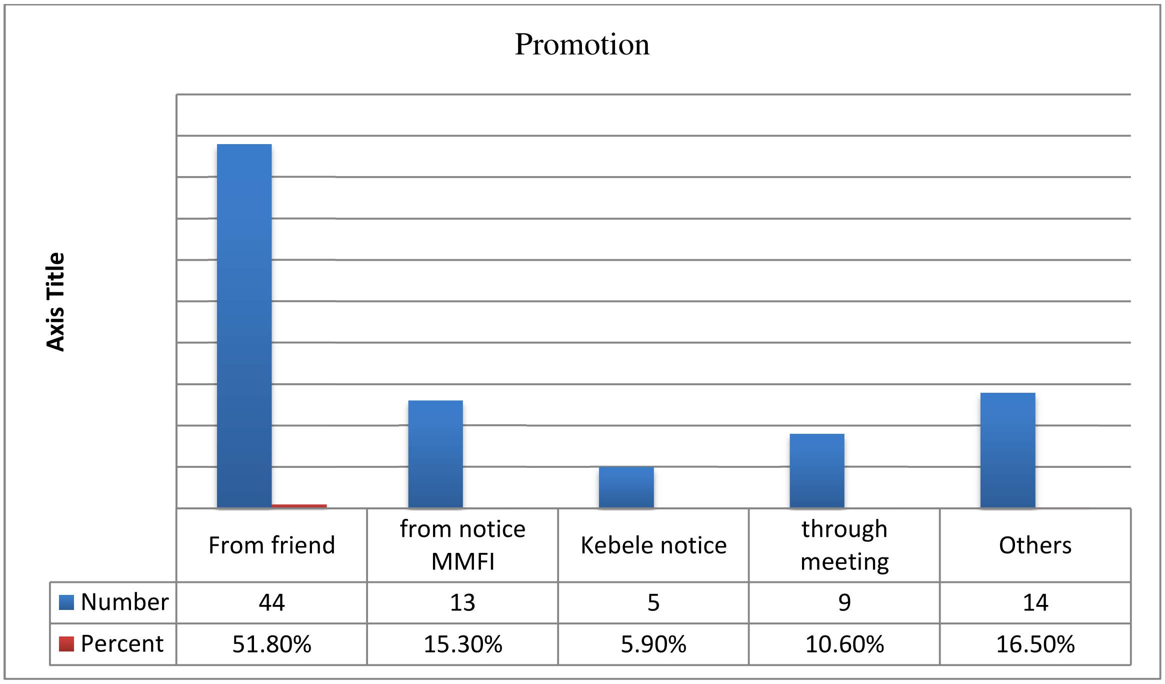


Table 18: Growth in number of active clients

Year and Sex		Ending Active Client (A)	Beginning Active Client (B)	Difference **(C=A-B)**	Growth in No Of Active Clients **(D=C/B*100)**
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 15 above, the growth in number of active clients was decreased. Accordingly, in 2008/2009 active clients were grown by 28%, and 27% in 2011/2012, whereas, the remaining three years the growth of active clients were less than 10% (6% in 2009/2010. 2% in 2010/2011, and 9% in 2012/2013). Even though the number of active client growth was very slow, MMFI was relatively better in female number of clients than men. Because in 2009/2010, female client growth rate exceed by 2% than men, in 2011/2012 and 2012/2013 exceeding by 19% and 2% respectively. So it can be concluded that the aggregate number of active clients served by MMFI are limited. Hence, the institution, operation policy needs to be revised in a manner that helps to serve more clients.

Table 19: 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 table 16, most of the time MMFI achieves below 50% of the plan. The table shows 27% of achievement in 2008/2009, 30% of achievement in 2009/2010, and 32% of achievement in 2010/2011. The table also shows better achievement in the last two years in relative to the previous years, it was 53% of plan achievement in 2011/2012 and 60% of achievement in 2012/2013. On the other hand MMFI has been achieved better in female clients than men especially in the year of 2011/2010 and 2012/2012, 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, and the plan also seems very ambitious. However, the MMFI official's interview response regarding this issue shows the plan was not unachievable but financial constraint inhibits the achievement.

CHAPTER FIVE

SUMMARIES, CONCLUSIONS, AND RECOMMENDATIONS OF MAJOR FINDINGS

Introduction

The primary and secondary data has been discussed in the preceding chapter. This chapter deals with the summary conclusion, and possible recommendations based on the findings.

5.1 Summary of Major Findings

The study was conducted at (MMFI). The main objective of the study was to assess operational performance of MMFI in Addis Ababa Ethiopia. The study has made use of both primary and secondary data sources. A total of 85 sample borrowers were selected through stratified and simple random sampling and data was analyzed by making use of descriptive statistical tools. The main findings of the study are summarized below:

- ❖ The majority of respondents have below TVET level education.
- ❖ MMFI inclined more on individual loan especially business loan.
- ❖ More than half of the respondents (51.7%) indicated that they often use the loan for the intended purpose, but the interview result indicated that there is misuse of loan among clients. The finding also revealed that borrowers are not supervised regularly as planned after the loan is disbursed.
- ❖ Concerning the issue of repayment incentives, the finding shows that MMFI didn't acknowledge borrowers who have paid their loan repayment on the due date. The only difference between late payers and non-defaulters made by MMFI is that excluding the defaulters of exceeding three months from getting the next loan cycle.
- ❖ Majority of respondents found that their loan has been given with no pre-loan supervision. Moreover, the supervision after the loan is disbursed was poor.
- ❖ Concerning the training issue, majority (80%) of the respondents has not taken any training from the lender concerning how to run their business and loan utilization.

- ❖ Out of the total sample respondents, 24.7% of respondents borrowed additional loan from other financial sources, and 75.3% of respondents have no loan from any financial sources other than MMFI. The data shows that there is a trend for having extra loan from other lending institution. An interview with branch managers revealed that there is no formal way of checking 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 borrowers hide information or fill false information.
- ❖ Out of 85 respondents, 75.3% of them have no loan from other lending intuitions while the remaining respondents are found with double loan. What makes the problem more systematic is, MMFI has no mechanism or system designed to identify double loan.
- ❖ Concerning loan default (arrear), the study shows that the majority of borrowers were in arrears as far as loan repayment was concerned. It is also found that the major reasons for not paying on due date are unprofitable business and improper use of loan (loan used for household expenses).
- ❖ The repayment performance of MMFI was found to be below the average for four consecutive years (2008/2009 to 2011/2012). But, in 2012/2013 fiscal year it was improved above average. It is also found that the portfolio at risk was high, in line with repayment performance with PAR>30 days (highly improved) in 2012/2013. Furthermore, the finding revealed that the percentage of women borrower is lower than men defaulter.
- ❖ It was found that the defaulted loans were more sever in male borrowers than women borrowers.
- ❖ Less risk of portfolio was found in women borrowers than male borrowers
- ❖ The customer handling system of MMFI is found disheartened by most of the respondents (69.4) %.
- ❖ There were low achievement in relation to PAR>30 days. The performance of PAR>30 was decreased by 9%.

- ❖ Better repayment rate was found in individual loan than group loan
- ❖ This implied that the risk of loan not to be collected is less in individual loan compared to group loan.
- ❖ The majority of respondents (70.6%) have indicated their agreement that MMFI is fast to disburse loan to borrower who fulfill all the requirements.
- ❖ In relation to office location most of the respondents (64.7%) are not comfortable since the location of MMFI office is not easily accessible whenever they need.
- ❖ With regard to loan size, it was evident that most respondents (61.1%) claimed that the loan size of MMFI is not enough to facilitate and make a return from borrowers business. In addition, the result also shows that above 50% of respondents has no plan to repeat their next loan in the future. Moreover, most of the respondents are not willing to recommend the service of MMFI to others they may know.
- ❖ The study reveals that 51.7% of respondents confirmed that the collateral required for individual loan is not fair.
- ❖ Due to lack of promotional activities, more than half (51.8%) of the respondents have joined to MMFI via the information they have gotten from their friends signaling that the institution lacks effort with regard to its outreach programs.
- ❖ The tendency in terms of increasing number of active clients in the last five years shows a reverse trend. Even though the number of active client growth was very slow, compared with men clients, the growth of women clients is relatively better than men. The plan achievement in relation to number of active clients was found to be unsatisfactory; with low plan achievement. The finding revealed that the major obstacle for low achievement was financial constraint.

5.2 Conclusion

In line with the main findings summarized above, the following conclusions are forwarded.

5.2.1 Repayment Performance

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%, it showed improvement for every year but with a decreasing rate. Poor repayment performance leads to loan in arrears that can be measured with portfolio at risk (PAR). Within low repayment performance in MMFI women repayment performance is better than their counter parts. Moreover, MMFI the findings indicated that, relatively have 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. At the same time the study concluded that borrowers who did not receive any training before receiving loans from MMFI defaulted in repayments since they were unable to increase their earnings. 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.

5.2.2 Client Retention Performance

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. From client perspective dropout increase transaction costs and reduces the possibilities to derive benefit that continuous participation in MMFI could bring. A high dropout rate is also detrimental for the microfinance as a poverty alleviation tool since it questions the ability of microfinance to serve the poor and meet their requirements and needs.

The study shows that most respondents are new and second time borrowers. This indicates that the clients did not have more repeated loan in MMFI. This means most of the borrowers of MMFI are first time borrowers. Small loan size is granted for new clients. This is not enough for efficient operation clients business. As a result clients forced either to have additional loan from other MFIs or decide to exit from MMFI. 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. Collateral, high interest rate, distant office location, and poor customer handling discouraged borrowers to repeat the loan.

5.2.3 Outreach Performance

The location 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 individual who seek services from MMFI might look 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 fixes asset collateral. This is too difficult for MF borrowers. This situation prohibits borrowers from coming to MMFI, instead they starts to find other MFIs that require reasonable collateral to fulfill their credit demand.

Absence of loan default and presence of high client exit weakens the financial capacity of MMFI. Due to this the institution didn’t serve more able poor clients as per the plan. Because the information gathered via interview indicated that one of the problems of poor performance was lack of financial capacity to expand the service and to reach clients. 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).

5.3 Recommendations

Based on the empirical results of the study, the following feasible recommendations and policy implications are forwarded. They are deemed to be used by different stakeholders who are keen to harness the operational performance of MFIs including MMFI and other similar financial institutions that operates in the country to reach the marginalized section of the society for poverty alleviation.

MMFI repayment rate was found to be below the expected rate, this can hinder the loan recycle, retaining clients, and expansion service. Individual lending repayment performance is supported by literature to be high for urban borrowers. The institution tends to practice more in providing credit facility to individuals than group. But the repayment performance of individual and group lending needs further research. In order to improve the operational performance in relation to repayment, client retention, and outreach (number of clients) performance, MMFI should consider the following:

- Before the loan is approved, the feasibility of client's business should be evaluated, because the client may request inappropriate loan size, may engage in illegal business that harm the society or it might be an incorrect business plan. Therefore, it is recommended that the pre-loan supervision is not only to approve or restrict, or reject the loan, but also to give business advice. After the loan has been disbursed it must be supervised regularly, and accordingly it should be taken appropriate corrective action. 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.
- Short term trainings can help to improve repayment performance. Therefore, MMFI should offer regular trainings that could help clients to properly manage/utilize and keep records on the loan they have borrowed.
- Borrower who have loan balance before they came to MMFI might be a problem of loan default mainly because their financial capacity might be weak to repay double

loans. To solve this problem MMFI in collaboration with other similar institutions should try to design systems to identify borrowers who have loan from other microfinance institutions.

- Retaining clients' needs due attention before anything else, because other issues can be addressed with the presence of clients. 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.
- Clients as customers need special treatment according to their need. To do so the institution should assure to have the right staff at the right position. Continuous customer handling training should be given to staffs especially operational employees. Respect and incentive in relation to good repayment performance narrows the gap that should be developed as an organizational culture.
- 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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APPENDEX A

St. Mary's University

School of Graduate Studies (SGS)

Questionnaires to be filled by clients/borrowers

Dear Respondent,

The main objective of this questionnaire is to gather data that help the researcher in conducting a research on "**Assessment of Operational Performance of Meklit Microfinance Institution in Addis Ababa, Ethiopia"**. Hence the researcher would like to request you to fill in this questionnaire. Your genuine response will significantly contribute to the success of the study. Please note that all your responses will only be used for academic purpose and the data will be treated at most confidential.

The researcher would appreciate your cooperation in advance.

Note:

- Please note that there is no need to write your name

I. Background Information

Please indicate your answers by putting a tick mark (☑) in the box, write for blank spaces.

1.Sex: 1. Male ☐ 2. Female ☐

2. Education Level:

    1 Basic education ☐

    1. Elementary school ☐
    2. Secondary school ☐
    3. Certificate (TVET) or diploma ☐
    4. 1st degree and above ☐
    5. Above first degree ☐

3. To which loan category do you belong?

    1. Group business loan ☐
    2. Individual business loan ☐
    3. Individual consumption loan ☐

4.For which round do you get borrowing currently?

1. 1st round ▢
2. 2nd round ▢
3.3rd round ▢
4.4th round ▢
5. More than 4th round▢

II. Questions concerning assessment of operational performance of Meklit microfinance Please indicate your answers by putting a tick mark (☑) in the box.

5. How do you join Meklit microfinance institution?
   1. from friend ▢
   2. from notice or advertisement ▢
   3. From Kebele notice ▢
   4. from the institution, during different meetings ▢

Please put a tick mark in the box (✓) to show your level of agreement with each statement about loan repayment performance.

Scale:1 = Strongly Disagree 2 = Disagree, 3= not sure, 4 = Agree, and 5= Strongly Agree

No	**Statement**	1	2	3	4	5
6	Spending the borrowed loan for the intended purpose properly.	1	2	3	4	5
7	On time repayment is an incentive to get the next higher loan size.	1	2	3	4	5
8	After the loan is disbursed loan officers follow up or supervise clients business regularly.	1	2	3	4	5
9	Before the signing of loan contract, the lender (MMFI) confirms the feasibility of clients business.	1	2	3	4	5

10. Have you taken any training that enables you for better utilization of loan?
    1. Yes ▢
    2. No ▢

Please put a tick mark in the box (✓) to show your level of agreement with each statement about client retention performance.

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

No.	**Statement**	1	2	3	4	5
11	Meklit gave loans according to the paying history and capacity of the borrower.	1	2	3	4	5
12	The customer handling of the institution encourages for repeated loan.	1	2	3	4	5
13	Borrowers received the requested and approved loan with a short period of time.	1	2	3	4	5
14	The location of the lender's office is convenient that can easily found and reached.	1	2	3	4	5
15	Meklit willing to arrange extra time for late payments with free of penalty for reliable and acceptable default risk.	1	2	3	4	5
16	The loan size granted by the institution is adequate to meet borrowers need.	1	2	3	4	5
19	I plan to use Meklit Microfinance Institution's services again in the future	1	2	3	4	5
20	I will recommend Meklit Microfinance Institution's services to others	1	2	3	4	5
21	The collateral or security requested by the lender (MMFI) considers borrowers capacity.	1	2	3	4	5

22. My overall level of satisfaction with Meklit Microfinance Institution is:
    1. Strongly Dissatisfied □
    2. Dissatisfied□
    3. Neutral □
    4. Satisfied□
    5. Strongly□

23. Is repayment period suitable for you?
    1. Yes ▢
    2. No ▢

24. What is the Status of the Loan?

1. Repayment on Schedule
2. Repayment in arrears

25. Why loans are in arrears?

1. Business not profitable ▢
2. Loan used for household expenses ▢
3. Sold on credit ▢
4. Loss of asset ▢
5. Not in arrears ▢

26. Do you borrow from other sources for various purposes?

1. Yes ▢

2. No ▢

27. If yes, from where do you borrow?

1. Borrow from other Microfinance institutions ▢
2. Borrow from family or friends ▢
3. Borrow from informal money lenders ▢
4. Borrow from formal banks ▢
5. Others (please specify)________________

28. How do you evaluate the interest rate of the institution?

1. Low ▢
2. Moderate ▢
3. High ▢

Please give your answer by writing for the following open ended questions.

29. What problems did you face other than mentioned above?

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30. What do you suggest that enhance the Meklit microfinance operation to satisfy your need?

I Thank You

APPENDEX B

St. Mary's University

School of Graduate Studies (SGS)

Interview Questions

The main objective of this interview is to gather data that help me as a student researcher in conducting a research on "Assessment of Operational Performance of Meklit Microfinance Institution in Addis Ababa, Ethiopia". Hence I would like thank you for your willingness to conduct this interview. Since the information that you release is used only for academic purpose, I assure that, your response will be treated at most confidential.

1. What type of loan product (group of loan product) is offered by your institution?
2. Which type loan more interested by borrowers?
3. What challenges you face in your lending methodology?
4. What mechanisms used by the institution in selecting the borrowers?
5. Does the institution provide training for the clients before the loan is disbursed?
6. What do you suggest to increase the clients retention rate of your institution?
7. How do you supervise loan utilization?
8. What type of guarantee is required for:
    - ✓ Group business loan
    - ✓ Individual business loan
    - ✓ Consumption loan
9. What mechanisms are used to motivate your staffs?
10. How successful is your institution in terms of:
    - ✓ Serving more new clients
    - ✓ Participating women borrower
11. What strategy you use to get clients?