ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF OUTREACH AND FINANCIAL SUSTINIBILITY OF MICRO FINANCE INSTITUTIONS A CASE STUDY OF OMOMICRO FINANCE INSTITUTION

BY

SHIFERAW DESSALEGN

JAN, 2018

ADDIS ABABA, ETHIOPIA

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ABSTRACT

In recent years the growth and expansion of microfinance programs and increasing attention to microfinance as a poverty reduction strategy and making profit for their continued existence and resolving the credit access problem of the poor. The main objective of the study is to assess the status of outreach and financial sustainability of omo microfinance Institution (OMFI) and makes recommendations for improving its outreach and financial sustainability. The study uses descriptive type of data analysis using different performance indicators. Data for the study was used from secondary sources such as balance sheet, income statement and operational data. In order to see the trend in performance the researcher used five years data (2012-2016). The major findings of the study indicate that growth of client outreach of OMFI has decreased during the period under study. Regarding financial sustainability, borrower per loan officer has decreased, operating expense has increased, and active client per staff member has decreased. Operational self sufficiency and return on asset has decreased. On the other hand, voluntary and compulsory savings have increased. This implies that except saving, all other indicators show that OMFI has weak financial sustainability during the period under study. The study proposes some policy recommendations implied from the findings: First, in order to retain its clients, OMFI should take some measures such as providing access to additional services, training its clients, promote its services, and establish more branches. Second, to improve its financial sustainability, OMFI has to take measures to expand its borrower base, and improve its operational self sufficiency and return on asset.

Key words: Outreach and Sustainability

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List of Acronyms

AEMFI	Association Ethiopian micro finance
ACSIs	Addis credit $ saving institution
CRD	Christian Relief Development
DBE	Development Bank Ethiopia
DECSI	Dedebit credit $ saving Institution
EPRDR	Ethiopian people’s Revolution Democratic Republic
FAD	Fund for Agricultural Development
FSS	Financial Self-Sufficiency
GDP	Grosse Domestic Product
HCA	Hawasa City Administration
IFAD	International Fund For Agricultural Development
MFIs	Microfinance Institution
MENA	Middle East and North Africa
NGO	Non Governmental Organization
NBE	Nib bank of Ethiopia
OMFIs	Omomicro Finance Institution
PEACE	Poverty Eradication and Community Empowerment
POCSSBO	Project Office for Creation of Small Scale Business Operation.
ROA	Return on Asset
RFIs	Rural Financial Institutions
RUFIP	Rural Financial Intermediation Program

Table of Content

Content **Page**

Abstract-- i
Acknowledgments-- ii
List of Acronyms-- iii
Table of Content-- iv
List of Table-- vii
List of Figure--- viii

CHAPTER ONE

INTRODUCTION-- 1
1.1 Background of the Study-- 1
1.2 Statement of the Problem--- 5
1.3 Research Question-- 7
1.4 Objective of the study-- 8
1.4.1 General objective--- 8
1.4.2 Specific objective-- 8
1.5 Significance of the study-- 8
1.6 Geographic Scope --- 9
1.6.1 Scope of the Study --- 9
1.7 Limitation of the study-- 9
1.8 Organization of the study--- 10

CHAPTER TWO

LITERATURE REVIEW--- 11
2.1 Theoretical Review-- 11
2.1.1 Definition of Microfinance Institutions (MFIs)-- 11
2.1.2 The History of Microfinance-- 14
2.1.3 Evolution of MFIs Industry in Ethiopia--- 15
2.1.4 Rapid growth and development of MFIs since 1996 ----------------------------------- 17
2.1.5 The concept of micro finance and its objectives-- 18
2.1.6 Micro finance as Anti- Poverty strategy--- 19

2.1.7 Policy environment of MFIs-- 21
2.1.8 Financial actors-- 21
2.1.9 Source of funds-- 23
2.1.10 Saving--- 24
2.1.11 Performance measurement indicators-- 24
2.1.11.1 Outreach--- 25
2.1.11.2 Financial sustainability--- 28
2.1.11.3 Efficiency and productivity--- 31
2.1.11.4 Portfolio quality--- 33
2.1.11.5 Welfare Impact-- 34
2.1.12 Challenges of outreach and financial sustainability of microfinance performance… 35
2.2 Empirical studies review-- 36
2.3 Summaries--- 39

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY------------------------------- 40
3.1 Description of the Study area--- 40
3.2 Research Design -- 40
3.3 Research Procedure and Sample size-- 41
3.4 Types of Data and Instruments of Data Collection ------------------------------------- 41
3.5 Data Analysis Technique -- 41

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION--- 42
4.1. Outreach Performance --- 42
4.1.1 Active Clients served -- 43
4.1.2 Active Women Clients -- 44
4.1.3 Savings outreach -- 45
4.2. Portfolio Qualities Indicators -- 46
4.3. Efficiency and Productivity indicators --- 49
4.3.1 Operating Expense Ratio -- 49
4.3.2 Active clients per Loan Officer --- 50

4.3.3. Active Clients per Staff Member--- 51
4.4 Profitability and Financial Sustainability--- 52
4.4.1 Operational Self-Sufficiency (OSS) --- 53
4.4.2 Returns on Assets (ROA) --- 54
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATION-------------------- 56
5.1 Summary--- 56
5.2 Conclusions--- 56
5.3 Recommendations-- 59
Reference---
Appendix---

List of Tables

TABEL NO	DESCRIPTION	Page
Table.1	Outreach indicators	28
Table.2	Financial sustainability indicators	31
Table3	Efficiency and productivity indicators	32
Table.4	Portfolios quality indicators	33
Table.5	Active client served	42
Table.6	Trend on saving outreach	45
Table.7	Average portfolio at risk	48
Table.8	Efficiency and productivity indicators	49
Table.9	Profitability and financial sustainability	53

List of Figure

FIGURE NO	DESCRBITION	Page
Figure. 1	Trend of active client	44
Figure.2	Proportion of active clients by gender	44
Figure. 3	Trend in saving outreach	46
Figure. 4	Repayment rate	47
Figure. 5	Operating expense ratio	50
Figure. 6	Borrower per loan officer	51
Figure .7	Active client per staff number	51
Figure. 8	Return on asset	54

CHAPTER ONE

INTRODUCTION

1. 1 Background of the Study

Microfinance is a financial intermediary that used for the economic benefit of the poor and to alleviate poverty. Also, it helps the poor to be involved in income generating activities that allow accumulating capital and improving their standard of living. As quoted by the late Milt Friedman, Nobel Prize winner in the Economics 1976, “The poor stay poor not because they are lazy but because they have no access to capital” (Smith & Thurman, 2007). This is true since many of poor people around the world are already benefit in from microfinance. Previously, microfinance was known as rural finance or informal finance. Rural finance and informal finance have similar characteristics. A practices as microfinance, as they involved in small loans that are normally tailored to the poor. The term “microfinance” became popular and widely used with the establishment of Germen Bank by Muhammad Yuns in the 1970s.

Micro-Finance Institutions (MFIs) are often the following characteristics: targeting the poor (especially the poor women), promoting small businesses, building capacity of the poor, extending small loans without collaterals, combining credit with savings, and charging commercial interest rates. MFIs are often innovative and flexible in their design and implementation (Dejene, 1993). Micro finance is the chance the poor never had. It provides credits and savings services to the self-employed to enable them to start-up or expand small income generating activities the typical micro finance clients are low-income persons that do not have access to formal financial institutions. Micro-Finance clients are typically employed, often house hold based entrepreneurs. In rural areas, they are usually small farmers and others who are engaged in small income generating activities.

Over the past 20 years, microfinance has developed into a specialized method of providing these financial services at sustainable rates to the economically active poor households, who cannot access the commercial banks of the formal sector, be it for socio-cultural, systemic, geographical, or other reasons. Target client’s of the microfinance industry use and benefit from small savings and loans to grow rather than establish their micro-businesses.

Ethiopia is one of the developing countries in Africa. The per capita income of the country though it showed improvement in recent years, is only USD 600 as at end of 2008/09. This is very little money to cover daily meal, let alone health, education and other emergency expenses, which make the poor venerable to unforeseen illness expenses and others. There is also high level of unemployment even with the skilled labor force. For instance, according to World Development Indicators (2004) out of the total unemployment of the active labor force 26.9% 61.3 % and 8.3% have complete Primary, secondary, and tertiary education, respectively. And, this unemployed population is increasing from time to time as the population of the country is increasing. Despite the need to eradicate poverty, especially among low income society the microcredit programmed also hoped to reduce the dependency of poor people on the government be promoting the concept of self-reliance.

The new paradigm began to emerge in the second half of the 1980s because of the wide spread failures of development banks and the encouraging results of some microfinance innovations to serve the poor. The period was marked by a major debate between the financial system approach and poverty lending approach. The financial system approach, focus on large scale outreach to the economically active poor both to borrowers who can repay micro loans from households and enterprise income streams and to savers. It also emphasizes on institutional self-sufficiency. The poverty lending approach concentrates on reducing poverty through credit, often provided together with complementary services such as skills training. Under this approach donor and government funded credit is provided to poor borrowers, typically at below market interest rates.

The goal is to reach the poor, especially the extremely poor the poorest of the poor with credit to help overcome poverty and gain empowerment and to identify the challenges that faced MFIs not to operate efficiently. Except for mandatory saving required as a condition of receiving loan, the mobilization of local savings in normally not significant part of the poverty lending approach to micro finance (Robinson, 2001).

The establishment of sustainable MFI that reach a large number of rural and urban poor who are not served by the conventional financial institutions, such as the commercial banks, has been a prime component of the new development Strategy of Ethiopia (Wolday,2000). Most

microfinance institutions provide collateral-free small loans to low income households. These loans are generally expected to use for self-employment and income generating activities.

Microfinance can be a critical element of an effective poverty reduction strategy (Wolday, 2000).Microfinance institution has grown in prominence since Mohammad Yunus started the Grameen Bank project in 1976. He found that, he was able to lend them what they needed out of pocket. He started lending services that avoid high interest rate that the traditional money lenders charged.

The other indicator of performance of a micro finance institution is its financial sustainability. Different literatures noted that financial sustainability is one of the areas that we need to look at to assess the performance of micro finance institutions. Meyer (2002) noted that the poor needed to have access to financial service on long-term basis rather than just a onetime financial support. Short-term loan would worsen the welfare of the poor. He also stated that the financial unsustainable in the MFI arises due to low repayment rate or un-materialization of funds promised by donors or governments. According to Meyer (2002), there are two kind of sustainability that we could observe in assessing MFIs performance: Operation self-sustainability and financial self-sustainability.

The development of microfinance institutions in Ethiopia is a recent phenomenon. The proclamation, which provides for the establishment of microfinance institutions, was issued in July 1996. Since then, various microfinance institutions have legally been registered and started delivering microfinance services (Wolday, 2000). In Ethiopia, currently there are 29 micro finance institutions (MFIs) have established and have been operating towards resolving the credit access problem of the poor particularly to those participates in the petty business, Association of Ethiopian Micro finance Institutions (AEMFIs). Although, omo microfinance institution were evolved from a program established by the Relief Society of south region, funding by a government that established in 1997. In conducted a socio-economic study on rural poverty in south region. It providing credit and savings services for the rural and urban poor in the south region of Ethiopia. Omomicro finance was one of the largest micro finance in Ethiopia funding by regional government. It is found 275 K.M from Addis Ababa, it was established in1997, it has been widen its outreach and increasing its number of clients from year to year depending on its financial, human, and material resources capacity and an active clients of 147,500 with the goal

of providing innovative financial services to meet the needs of the poor people's through the provision of tailor-made credit products designed to meet the needs of its clients on a sustainable basis. Over the past twenty 20 years, it has grown with of 15 main branches and 165 sub-brunches providing the financing needs of the poor people's.

The size and loan period varies depending on the type of loan. Loan is provided either in group guarantee, individual with third party guarantee or through collateral. The Major types of Omo microfinance loan are regular loan, agricultural loan, civil servant loan, rural package(household centered) loan, urban package loan, business loan, loan for graduates of technical and Vocational education training, loan for university and college graduates, and cooperatives. An extensive effort to reduce unemployment in the south region is going on by the government through organizing those unemployed communities by assuming it is not an option rather it is very essential. Government is taking major role on how those organized peoples can access to loan from omomicrofinance institution. In general, the institution operates in rural and urban catering the poorest of the poor segments of the community as farmers, youth, women, disabled veterans, TVETs, graduated students, contractors, Micro-Small Enterprises and agro-industries Association of Ethiopian Micro finance Institution (AEMFIs) (Woldy, 2000).

1.2 Statement of the Problem

The role of micro finance institutions is to enhance access to finance, particularly to the poor, for whom the formal banks are not in general accessible. Thus, it's important to assess the bottlenecks hindering omomicro finance outreach to the poor in order to recommend policy options to overcome them. Moreover, profitability and loan collection performance are crucial to ensure financial sustainability of a micro finance institution.

To attain these objectives, the institutions should work towards institutional Profitability and sustainability because these parameters are the most comprehensive and reflect the ability of the MFI to continue operating in the future. This is possible only if the institutions measure their outreach as well as financial performance using measurement indicators which are developed by different scholars (Cull, & Murdoch, 2007).

According to Yaron (2002) introduced a new criterion for measuring the success of microfinance institutions, which is 'sustainability and outreach'. He argues that if financial institution is able to provide a wide range of financial services in efficient manner they are likely to contribute to income expansion and poverty reduction. Therefore, measuring the performance of MFIs based on the criteria of 'sustainability' and 'outreach' can serve as a means of assessing the development impact the service brought while reducing the methodological problem.

The critical point of outreach and financial sustainability in brief are food security, creation of job opportunity and stimulating the local economy. Although, outreach was some positive implications for financial sustainability. First, growth enables the organization to reach large number of client. Second, growth reduces average operating cost for the institutions. Third, growth helps institutions to satisfy their client's need through various services. Fourth, growth gives better image of the institutions to attract loan able funds from banks for further expansion and it increases the borrower's willingness to repay (Schreiner, 2003).

The financial performance sustainability and outreach of MFIs greatly influences its operational results and business efficiency. Besides, healthy financial sustainability and outreach performance of microfinance institutions is obviously very important for a well-functioning financial system in developing countries.

Therefore, it is highly significant to evaluate the financial sustainability and outreach performance of OMFIs using different performance indicators to identify the challenges and make policy recommendations to improve outreach and sustainability.

Some studies have assessed about the performance of MFIs, mainly its financial sustainability and outreach outside to Ethiopia. Baron (2002) has argued that the sustainability of MFI is measured in terms of generating enough revenues (excluding subsidies) to cover the cost of all factors of production loan able funds and reflects the MFIs ability to continue operating and grow in the future. Whereas, outreach is a hybrid measure that assesses the extent to which an MFI has succeeded in reaching its target client and the degree to which the MFI has met the client's demand for financial services. Havers (2010) were argued that the outreach is the provision of a wide array of quality financial services to a large number of poor people it is measured in terms of the number of clients, percentage of loans to client below the poverty line, percentage of female clients, the level of transaction costs levied on the poor and the extent of client satisfaction with respect to financial services.

Although, in Ethiopia there are some studies assessed the performance of microfinance institution. Study conducted by Kereta (2007) He studied the outreach and financial sustainability performance by simple descriptive analysis using graphs and percentage growth rates and his study should that in terms of breadth of outreach, a number of clients in each year from 2003 up to 2007.

Alemayehu (2008) assessed the sustainability of MFIs by using operationally sustainable as measured by ROA, ROE, PAR and Dependency ratio as measured by the ratio of donated equity to capital decline and the ratio of retained earnings for the year (2005 – 2007).

Lakew (1998) also assessed MFIs in Ethiopia. But, the Objectives addressed in his studies are different. That the studies examines Project office for creation of Small Scale Business Operation (POCSSBO) of micro financing program contribution to poverty reduction.

Haile Selassie (2001) assessed operational financial viability and outreach of two MFIs in Ethiopia namely, Specialized financial and promotional institution (SFPI) and poverty

eradication and community empowerment (PEACE) operating in urban and rural area respectively.

Hussen (2006) has examined the operational financial sustainability and outreach performance of OMFI, Addis saving and credit association as well as sidama microfinance institutions during (2003-2004).

Most of the studies with the exception of Kereta have followed similar approaches. That is, they mainly focused on the overall operational performance of MFIs. So, that outreach to clients and financial sustainability were not specifically addressed in these studies.

This study is different from other studies by the following aspects. First, the study has used most recent data of omomicro finance institution from the year (2012 - 2016). Second, the performance indicators were used both for outreach and financial sustainability. Specifically, the study used growth number of active borrowers, percentage growth in saving deposit and proportion of active women borrower's indicators for outreach to clients. Likewise, operating sustainability ratio, financial sustainability ratio, ROA, loan officer productivity, Total personal productivity, operating expense ratio, personnel allocation ratio, portfolio at risk and repayment rate indicators used for financial sustainability of Omomicro finance institution.

Therefore, the study adds to the stock of knowledge on the performance of outreach and financial sustainability of micro finance institution in Ethiopia in general and in order to remain strategically competitive on outreach and financial sustainability within other microfinance institutions for omomicro finance institution.

1.3 Research Question

The research might be replaying the following questions which are entirely related to performance of client outreach and financial sustainability. A case on OMFI.

1. What was the outreach level of omo micro finance institution?
2. What does active clients by gender?
3. What has been the trend of saving within the study period?
4. What does omomicro finance in terms of financial sustainability?
5. What are the challenges that faced MFIs not to operate efficiently?

1.4 Objective of the study

1.4.1 General Objective

The general objective of the study is to assess outreach to the poor and financial sustainability of OMFI/omo microfinance institutions/.

1.4.2 Specific objective

The study aims to achieve the following specific objectives

- ❖ To look at the microfinance institution outreach to the poor.
- ❖ To know the trend of saving within the study period.
- ❖ Assess the financial sustainability of omomicro finance institution by using sustainability indicators such as, loan repayment, Return on Asset (ROA), Operational self-sustainability (OSS) and financial self- sufficiency (FSS), PAR, efficiency and productivity.
- ❖ To identify the challenges that faced MFIs not to operate efficiently.

1.5 Significance of the study

The study findings enable the performance of Outreach and Financial Sustainability of omo microfinance Institution in Ethiopia found on southern nation nationalist people regional state. It also act as a source of literature of other scholars who intend to carry out further research on the performance of omomicro Finance Institution on its Outreach and Financial Sustainability with other similar microfinance institutions. This study would be also useful to other microfinance and investors who are interested in investing financial intermediaries and practitioners, policy makers, academicians and readers should benefit from this research paper through giving their opinion and suggestion about the practice of outreach and financial sustainability. Besides, this study help to provide general ideas and information those individual who were engaged in research activity regarding to outreach and Financial Sustainability performance of microfinance Institution also benefit from this study as well.

1.6 Geographical scope

The study would be conducted from omomicro finance institution in southern nation nationalities and people's regional state. The city was located at south part of Ethiopia, in south regional state. It is located at a distance of 275 kilometers from the capital city of Ethiopia, Addis Ababa. Hawssa is the capital city of south regional state. It is located at latitude and longitude of 7.06'N, 38.48'E, respectively, with an elevation of 1697meters above sea level. It is a city with eight sub city administrations. Based on the study conducted in2010 by Hawasa municipality, the city had an estimated total population of 133097. Omomicro finance is located in Hawassa city, the capital city of south region. It had 15 main branches and 165 sub-branches in the region. Hawssa City Administration (HCA), 2010).

1.6.1 Scope of the study

The outcomes of the research are more pleasing if it was be able to cover more branches of the institution. However, due to the locations were far from Addis Ababa of the main branches found in Hawassa. The scope of the study limited to the main branch in Hawassa which is located in Hawassa city. Moreover, the study specifically has focused on the Assessing the performance of omomicro finance Institutions on Its Outreach and Financial Sustainability of the last five years trends from the period (2012 up to 2016).

1.7 Limitation of the Study

It is known that any study is not absolutely free from limitations. As a result, the researcher were faced some limitation which, in fact, may affect the quality of the study. First the study could have been more informative if longer time series data were used. However, omomicro finance institutions have organized time series data only for the year (2012 – 2016), which the study used. Second, the finding could have been strengthened further if clients and staff members of omomicro finance institution interviewed. However most of the clients live in small towns and rural eras in SNNP region, which makes it financially demanding to interview them. Nevertheless, the researcher hopes that the finding of the current study remains useful to understand the performance of outreach and financial sustainability of omomicro finance institutions.

1.8 Organization of the study

The research was organized in to five chapters: chapter one is contains: the introduction of the study, statement of the problem, objective of the study scope and significance of the study limitation and Organization of the stud. In chapter tow various literature review, theories and empirical studies are overviewed. Chapter three was focuses on research design and methodology. Chapter four Data analysis and discussion and also there is tested. Finally, in chapter five the study summery and conclusion made based on the finding obtained in chapter four and also appropriate recommendations has given to the focal group of institution.

CHAPTER TWO

LITERATURE REVIEW

2. Introduction

This chapter summarizes the information from the available literature in the same field of study. It will review theories of credit management policy as well as empirical studies on credit management and loan collection performance in different financial institution.

2.1 Theoretical Review

The theoretical review aims at giving the meaning of a word in terms of theories of a specific discipline. It well contributes to a better understanding of the concept and help in assuming both knowledge and acceptance of theories that relate to client outreach and financial sustainability performance of microfinance institution.

2.1.1 Definition of Microfinance Institutions (MFIs)

Microfinance has been defined as: - The means by which poor people convert small sums of money into large lump sums (Rutherford, 2005).

Microfinance also defined as the attempt to improve access to small deposits and small loans for poor households neglected by banks or is defined as the provision of financial services to the poor involving small deposits and loans and use peer monitoring and joint liability structure to overcome the screening, monitoring and enforcement problems commonly encountered by formal lending institutions (Schreiner & Colombes, 2003).

Also, Microfinance can be again defined as financial instruments, such as loans, savings, insurance and other financial products that are tailored only to the poor. Microfinance is created in the economy for the economic benefit of the poor and to alleviate poverty. Microcredit is the lending side of microfinance. Microcredit loans help the poor to be involved in income generating activities that allow them to accumulate capital and improve their standard of living (Haile, 2007).

Microfinance is not simply banking for the poor it is a development approach with a social mission and a private sector-based financial bottom line that uses tested and continually adjusted sets of principles, practices and technologies.

The key to successful microfinance lies in the ability of the provider to cost-effectively reach a critical mass of clients with systems of delivery, market responsiveness, risk management and control that can generate a profit to the institution. Typically, this profit is ploughed back to ensure the long-term survival of the institution, i.e. the continuous provision of services demanded by its clients. Microfinance was known as rural finance or informal finance. Rural finance and informal finance have similar characteristics and practices as microfinance, as they involved in small loans that are normally tailored to the poor. The term "microfinance" became popular and widely used with the establishment of Grameen Bank by Muhammad Yunus in the 1970s.

Poverty is the major problem in most developing economies. In these economies, it is argued that among others absence of access to credit is presumed to be the cause for the Failure of the poor to come out of poverty. Meeting the gap between demand and supply of credit in the formal financial institutions frontier has been challenging. In fact, the gap is not aroused merely because of shortage of loan-able fund to the Poor rather it arises because it is costly for the formal financial institutions to lend to the poor. Lending to the poor involves high transaction cost and risks associated with Information asymmetries and moral hazards (Stieglitz and Weiss, 1981).

Nevertheless, in several developing economies governments have intervened, through introduction of Microfinance institutions to minimize the gap then allow the poor access credits. There are different arguments concerning how to evaluate the performance of microfinance institutions. Citing from Mayer (2002), indicated that Critical Micro-finance. Here, the concerns on outreach to the poor and, financial sustainability. This environment broadly includes the human and social capital possessed by the poor, the economic policies of the country, and the quality of the financial infrastructure that supports financial transactions. Improvements in the environment make it easier for MFIs to reach the intended objectives.

MFI is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology.

However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable than traditional bank clients.

During the 1970s and 1980s, the microenterprise movement led to the emergence of nongovernmental organizations (NGOs) that provided small loans for the poor. In the 1990s, a number of these institutions transformed themselves into formal financial institutions in order to access and on-lend client savings, thus enhancing their outreach. Specialized microfinance institutions have proven that the poor are bankable. Today, formal institutions are rapidly absorbing the lessons learned about how to do small-transaction banking. Many of the newer players in microfinance, such as commercial banks, have large existing branch networks, vast distribution outlets like automatic teller machines, and the ability to make significant investments in technology that could bring financial services closer to poor clients. Increasingly links among different types of services providers are emerging to offer considerable scope for extending access Consultant Group to Assist the Poor (CGAP, 2010).

Traditional banking sector cannot reach millions of poor for whom small loans could make huge differences. There are several reasons for this Most of the poor are rural and they are much dispersed. They have low education levels. As a result, administrative cost of supplying loans to the poor population is extremely high. Another issue that makes it difficult to serve these customers through traditional banking is that the poor does not have any assets to use as collateral. As a result, the poor had access to loans only through local moneylenders at exorbitantly high interest rates. Micro-credit financing starts with the assumption that the poor is willing to pay high interest rates to have access to finance (Bass and Henderson, 2004).

In general, the system uses the social trust as the collateral. Although there are different micro-credit financing models are usually members of small groups. Loans are given to individuals, but an entire group is responsible for the repayment. Hence, the borrower who does not fulfill his commitment to repay back loses his/her social capital. Micro-credit institutions report that their repayment rates are above the commercial repayment rates, sometimes as high as 97%. Today, there are millions of poor people around the world who turn to be entrepreneurs through the micro-credit sector. Micro credit and microfinance are relatively new terms in the field of development, first coming to prominence in the 1970s (Robinson, 2001).

2.1.2 The History of Microfinance

The history of microfinance is not new. Savings and credit groups that have operated for centuries include the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world (Schreiner,2003).

Formal credit and savings institutions for the poor have also been around for decades, providing customers who were traditionally neglected by commercial banks, a way to obtain financial services through cooperatives and development finance institutions. The concept of the credit union was developed by Friedrich Wilhelm Raiffeise and his supporters. Their altruistic action was motivated by concern to assist the rural population to break out of their dependence on moneylenders and to improve their welfare. From 1870, the unions expanded rapidly over a large sector of the Rhine Province and other regions of the German States (Ledger wood, 1999).

The cooperative movement quickly spread to other countries in Europe and North America, and eventually, supported by the cooperative movements in developed countries and donors, also to developing countries. Banks (BPR) or The Bank Perkreditan Rakyat opened in 1895. The BPR became the largest microfinance system in Indonesia with close to 9,000 units. In the early 1900s, various adaptations of these models began to appear in parts of rural Latin America. In most cases, these new banks for the poor were not owned by the poor themselves, as they had been in Europe, but by government agencies or private banks. Over the years, these institutions became inefficient and at times, abusive between the 1950s and 1970s, governments and donors focused on providing agricultural credit to small and marginal farmers, in hopes of raising productivity and incomes. These efforts to expand access to agricultural credit emphasized supply-led government interventions in the form of targeted credit through state-owned development finance institutions, or farmers' cooperatives in some cases, that received concessional loans and on-lent to customers at below-market interest rates. These subsidized schemes were rarely successful. Rural development banks suffered massive erosion of their capital base due to subsidized lending rates and poor repayment discipline and the funds did not always reach the poor (Hartarska, 2004).

Starting in the 1970s, experimental programs in Bangladesh, Brazil, and a few other countries extended tiny loans to groups of poor women to invest in micro-businesses. This type of microenterprise credit was based on solidarity group lending in which every member of a group guaranteed the repayment of all members. These "microenterprise lending" programs had an almost exclusive focus on credit for income generating activities (in some cases accompanied by forced savings schemes) targeting very poor (often women) borrowers (Mercy Corps, 2006).

The efforts to expand access to agricultural credit emphasized supply-led government interventions in the form of targeted credit through state owned development finance institutions, or farmers, cooperatives in some cases that received concessional loans and on lent to customers at below market interest rates. At the time these figures were collected, the top three MFIs in the world in terms of client outreach were BRAC (Bangladesh) with 3,000,000 clients, Grameen Bank (Bangladesh) with 2,380,000, Association of Asian Confederation of Credit Unions (Thailand) with 2,011,635 clients. BRI in Indonesia reaches 2,715,609 clients, but only 125,000 are classified as poor (Shahidure, 1995).

According to Jonathan (2010) the history of the modern microfinance institution can be traced back to Bangladesh and the launch of Grameen Bank by Professor Muhammad Yunus in the late 1970s. Through Grameen Bank, Yunus was able to provide access to very small amounts of capital with no collateral requirements.

2.1.3 Evolution of MFIs Industry in Ethiopia

Initially, micro credit started as a government and non-government organizations motivated scheme. Following the 1984/85 severe drought and famine. Many NGOs started to provide micro credit along with heir relief activities although this was on a limited scale and not in a sustained manner (IFAD, 2001). The Government also sporadically provided loans largely for the purchase of oxen through its Rural finance Department of the Ministry of Agriculture and cooperatives. But these loans were not based on proper needs assessment and no mechanism was in place to monitor their effectiveness. In many cases, these loans were not to be repaid and might have fostered a culture of not repaying loans (Alemayehu, 2008).

During the command economic system (1974- 1991), the Development Bank of Ethiopia (DBE) and the commercial Bank of Ethiopia (CBE) were also involved in extending loans to

cooperatives largely in response to the government's pressure. A massive default by the cooperatives following the demise of the command economy along with its extensive control systems, however, forced the CBE has continued to provide loans for the purchase of fertilizers and improved seeds on the basis of regional government guarantees.

The DBE has also been providing loans to micro and small-scale operators in some selected towns. This scheme was, however, based on donors fund designed in the form of revolving fund, and essentially based on a limited scale in terms of the number of clients covered.

Funds were simple been given from the DBE to clients identified and screened by the Trade and Industry Bureau of regional Government rally led to a low loan recovery rate (DBE, 1999). In line with this, the early for microfinance activity is the DBE (Development Bank of Ethiopia) Place, Pilot Credit Scheme, initiated in 1990 under the Market Towns Development Project implemented in 1994. While many NGOs Programmers that emphasizes both credit and savings began in early 1990s. (Dedebit Credit and Savings Institution, DECSI) was launched in 1993 Sidama Saving and Credit scheme (now Sidama Microfinance Institution) was established in 1994 Oromia Credit and Saving Scheme (Now Oromia Credit and Saving S.C) Started in 1996(Gerehiwot, 2002).

The formulization of the Micro finance institutions, micro credit used to be provided in a fragmented and unplanned manner even during the early 1990s. The micro credit scheme was donor driven rather than an outcome stemming from a clear policy direction and development strategy. Their outreach and impact also remained Limited (IFAD, 2001). Another feature of these credit schemes is that all was trying to address the credit delivery service alone. The provision of savings facilities, which is essential for a sustained credit service delivery, was completely ignored. The failure of the formal banks to provide banking facilities on the other hand led the sustainability of the NGO's credit scheme on the other hand led the government to issue out a legal framework for the establishment and operation of micro finance institutions. Currently there are 29 microfinance institutions in Ethiopia licensed and registered by NBE, following the issuance of proclamation No. 40/1994. The figures for Ethiopia were verified by (Wolday, 2002).

2.1.4 Rapid growth and development of MFIs since 1996

According to Wolday (2002) examine at the end of June 2007, twenty-seven Microfinance institutions operate in the country, obtaining license from National Bank of Ethiopia8. Most of the MFIs operate both in the rural and urban areas mainly centering their head office in Addis Ababa. Dedebit Credit and Saving Institution (DECSI) and Amhara Credit and saving institutions (ACSI) take more than 65% share in serving clients served in the market. Similarly, in outstanding loan provision also these institutions take the share (62percent) in the market.

Similar to microfinance approaches in many other parts of the world, MFIs in Ethiopia focus on group-based lending and promote compulsory and voluntary savings. They use joint liability, social pressure, and compulsory savings as alternatives to conventional forms of collateral.

Currently, the Proclamation requires MFIs to provide credit through group based lending methodologies. It allows MFIs to mobilize savings but restricts the size of MFI loans to a maximum of Br. 5,000 and the repayment term to no more than one year. An earlier ceiling on the interest rate was lifted in 1998. So, interest rates are no longer restricted under this law. Interest rates vary across organizations. MFIs in Ethiopia provide both non-agricultural and agricultural loans. While both types of loans are provided through group lending methodologies the agricultural Loans generally require a one-time or balloon payment at the end of the loan term, while other loans typically are paid on a weekly or monthly basis (Alemayehu, 2008).

The objectives of MFIs are quite similar across organizations. They focus on reducing poverty and vulnerability of poor households by increasing agricultural productivity and incomes, diversifying off farm sources of income, and building household assets. They seek to achieve these objectives by expanding access to financial services through large and sustainable microfinance institutions. Strategies driving most MFIs in Ethiopia involve community and participatory approaches.

Participation of women promotes savings mobilization and emphasizes long-term sustainability. While financial sustainability is a stated goal of most MFIs, profit making does not emerge as a dominant theme at this time. The Ethiopian microfinance industry has undergone tremendous growth and development in a very short period of time. Today, 29 registered MFIs provide savings and credit services to more than 500,000 households in rural and urban areas across the country Microfinance Development Review (2001).

2.1.5 The concept of micro finance and its objectives

Microfinance referred to as small scale financial services render to the rural and urban poor, providing credit for self-employment, and small business, and includes saving and technical assistance microfinance schemes have recently aroused interest among policy makes sand researches as vehicles of poverty mitigation. Pioneered by the German bank in Bangladesh, most micro finance program required the poor to from groups and repay the loan in small and periodic installments under micro finance service concept of money Lending has been institutionalized, rationalized and reformed for the sustainability of both borrowers and lender may encompass the provision of financial and other support services like savings, collateral free credit, insurance to the poor and it addresses the issues relating to poverty, and unemployment, micro finance institution have been established in accordance with the proclamation issued by the national bank of Ethiopia in 1996. There is about 29 micro-finance institution. All of them are share companies administered by their respective board of directors. The central objective of this financial institution is to provide credit and saving services to the poor (NBE, 1996).

In a broad classification MFIs in Ethiopia could be divided into three groups: Those targeted to specific region and have relatively strong support from regional government, those operating nationwide and are mainly supported by international NGO and those with profit motive, e.g. Agar.

The micro finance lending program has many objectives. Among theses, some of the objectives are to provide credit facilities for those urban and rural poor people from paying high interest rates to the informal money lender, improve the economic capacity of women and the saving habit of the people, vitality and use the local material effectively and enhance investment and income of the society (Daniel, 2010)

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

Poor people constitute the vast majority of the population in most developing countries. Yet, an overwhelming number of the poor continue to lack access to basic financial services. In many countries, microfinance continues to be seen as a marginal sector and primarily a development concern for donors, governments, and socially-responsible investors. In order to achieve its full potential of reaching a large number of the poor, microfinance should become an integral part of the financial sector. The poor need a variety of financial services, not just loans. Just like everyone else, poor people need a wide range of financial services that are convenient, flexible, and reasonably priced. Depending on their circumstances, poor people need not only credit, but also savings, cash transfers, and insurance Consultant Group to Assist the Poor (CGAP), 2010).

The two long-term goals of microfinance are thus substantial outreach and sustainability. Financial services, especially credit, are being delivered around the world without sufficient knowledge of or attention to these good practices but the short-term losses, and the longer-term unsustainable impact of such schemes ultimately harm the very clients that they were meant to benefit. The experience from past failures proves that direct provision of services by subsidized and non-profit bodies tends to result in limited outreach and unsustainable impact.

This fact is, however, sometimes overlooked in the quest to combat poverty by availing cash to the poor through any available channel. Because money is a commodity well-known and managed by almost everyone, the technical skill and specialization necessary to provide this business service successfully is often not adequately recognized (Rush, 2000).

2.1.6 Micro finance as Anti- Poverty strategy

The recent definition of poverty by the roared bank extended the conceptual dimension beyond the conventionally held idea of permanent income (consumption of lack of income) assets, sense of noiselessness and strategies not only need to create income earning opportunities, but also must empowerment of the poor in the sphere of state social in situations, and security against variety of shockers. Microfinance can be an effective and powerful instrument for poverty reduction, helping poor people to increase incomes, build assets, and reduce their vulnerability in times of economic stress. But it must be provided by institutions who strive to become effective business entities by developing a strategic vision for viability and the necessary professional skill and capacity (Aklilu, 2002).

In Ethiopia, for example, the development bank the commercial bank of Ethiopians, having their branches in urban and semi urban, provide virtually no access to the rural population. Private Banks through growing in number don't engage them in this raid. According to an earlier study in rural Ethiopia as a whole, less than 1% of the population has access to this source consequently, accessing credit for small scale and informal operators continue to pose a major constraint to growth of the sector. The alternative is the "informal" financial sector, mainly the individual money lenders. In this case, borrowers are required to provide guarantors and the interest rate is extremely high varying from 50% to 120% that the errata interest can 90 high as 400% in some instances. And this exploitive interest rate of the informal sector diminishes potential reform to factors of production, and is a constraint to diversity economic activities of the rural sector Report for (2007 to 2008).

The federal government of Ethiopia has taken several economic reform measures to address poverty in its every aspect. Thus, while trying to fulfill the basic needs of the population, it also embarks up on economic reform measures conductive for free market competition and employment creation which includes the promotion of policies that will encourage saving, private investment, increasing income earning opportunities and promotion of small scale industries in the informal sectors among others. The five-year development program document emphasizes, among others, credit as a means to increase small holder production EPRDR (1992). financial markets are considered by the regional governmental as a good entry point in achieving food security objectives as the will allow rural households in both food secure and in secure area to explore their comparative advantage in the market place and to create. Thus, in addition to promoting provision of credit through government channels, the program encourages micro finance institution to prone the services of credit provision and saving mobilization. However, even of policies aimed at changing the regulatory environment were expected to behave the way for increased flows of resources to rural and informal sector micro financial services are still in adequate. Association of Ethiopian Micro finance Institution (AEMFI) (Woldy, 2000)

2.1.7 Policy environment of MFIs

Government in its policies and strategies such as poverty reduction strategy, rural developments strategy and industrial policy has clearly indicated its commitments to support and promote microfinance. Proclamation No 40/1996 and 17 directives issued by the National Bank of Ethiopia have created an enabling environment for the industry. The lending interest rate ceiling has been waived and MFIs are free to set their own interest rate. The interest rate is one of the main factors that affect outreach and sustainability paid up capital requirement for registration is a positive policy initiative from the part of the government (Proclamation No 40/1996).

The lack of institutional and human capacity is the key constraint of Microfinance. That is a specialized field that combines banking with social goals and capacity needs to be built at all levels from financial institutions through the regulatory and supervisory bodies and information systems to government development entities and donor agencies. Most investments in the sector both public and private should focus on this capacity building consultant group to assistant the poor (CGAP, 2010).

The minimum capital required to establish a micro finance institution is birr 200,000 (birr two hundred Thousand) and birr 75 million for formal banks. This is done to encourage investments in medium and small banks that cater the financial needs of the rural and urban poor (Hailu, 1999).

2.1.8 Financial actors

According to Dejene (1993) examine most poor people are not able to access financial services because of the lack of strong retail financial intermediaries. Building financially sustainable institutions is not an end in itself. It is the only way to reach significant scale and impact far beyond what donor agencies can fund. Sustainability is the ability of a microfinance provider to cover all of its costs. It allows the continued operation of the microfinance provider and the ongoing provision of financial services to the poor. Achieving financial sustainability means reducing transaction costs, offering better products and services that meet client needs, and finding new ways to reach the unbanked poor.

Access to finance by poor households in Ethiopia is primarily through informal systems, including moneylenders, traders, friends, relatives, edirs and ekubs (informal, group based savings and credit associations). Poor households have almost no access to formal commercial banking institutions or savings and credit cooperatives. The approximately 700 savings and credit cooperative organizations (SACCOs) in Ethiopia are urban, employee-based cooperatives of Ethiopian (Dejene, 1993).

Since, 1996 MFIs have been playing an increasingly important role in providing financial services to poor households throughout Ethiopia. Government supported MFIs have contributed largely to the growth and development of the MFI industry. Among the 29 registered MFIs, six are supported by the regional governments. Tigray, Amhara, Oromia, Southern People's Nation, Addis Ababa, and Benishangul. The regional government of Dire Dawa has an application pending with the National Bank of Ethiopia. Regional governments support these MFIs financially and through grassroots level government administrative organizations. MFIs supported by the regional governments typically have extensive geographic spread across weredas within their regions. A large majority of their clients are from rural households (except Addis Ababa region). One feature of the government supported MFIs is that they offer both agricultural and non-agricultural credit. A portion of the agricultural credit is extended under a somewhat controversial government agricultural extension program to provide term credit for seeds and fertilizer (Aklilu, 2002).

In addition to being smaller, many are linked to the activities of national and international non-governmental development organizations including, for example, World Vision, Catholic Relief Services, and Christian Relief and Development Association. While some have grown out of NGO credit activities operating before 1996, others have been newly established. Several smaller MFIs are linked to community-based organizations actively involved in informal finance, like edirs (for example, Shasemene eddir Yelimat, Agar MFI and African Village Financial Services) (Woldy, 2000).

2.1.9 Source of funds

A feature of all Ethiopian MFIs is that they are actively involved in savings mobilization, which is explicitly sanctioned by the microfinance law. Thus, they are in a position to play a financial intermediary role, a standard 'best practice' of microfinance. Savings are central to their operations and provide an important source of funds for lending, especially in the larger MFIs. In Ethiopia, like all other developing counties, informal finance is available from various traditional institutions. The informal sources of credit at present are moneylenders, friends and relatives, rich farmers, traders, Eqqub and Edir (Dejene, 1993).

The significance of each of these sources varies from area to area. However, the traditional mutual self help schemes (Iquib, Idir, Meredaja-mahber) play an important role in rural and urban micro financial service delivery in Ethiopia. Of these the Equib is used as a Rotating Saving and Credit Association. A study on the establishment of rural credit in Ethiopia estimates that the volume of money revolving within the Equib is in the range of 8-10% of the GDP of the country (UNDP, 2007 to 2008).

Overall, savings was an important service for clients and source of funds for MFIs and mobilization will remain central to their future strategies. Besides savings, donated equity finance from regional governments has been a critical source of capital for government supported MFIs. Other sources of donated equity finance for MFIs include donor organizations, foreign NGOs, churches, other associations and Support for equity capitalization of MFIs from international donors has been relatively modest to date. Up to now, Sida is one of the few bilateral (or multilateral) donors to provide large amounts of capital funding through its support for the Amhara Credit and Savings Institutions (ACSI) (Hailu, 1999).

Most donor organizations have preferred to support capacity building. So far, loans soft and commercial have not played a role as a source of MFI funds. This is all about to change if/when the International Fund for Agricultural Development's (IFAD) Rural Financial Intermediation Programmed (RUFIP) is approved. This program will provide large amounts of capital funds to MFIs through both loans and grants (Bass and Henderson, 2004).

2.1.10 Saving

Studies indicate that savings were the "forgotten half" of rural finances Policy makers and bankers in many parts of developing world have been taught to believe that the poor don't save, cannot save, and do not trust financial institutions, and prefer non-financial forms of savings .

According to Ledger wood (1999) in the earlier period, micro finance programmers' were not effective in mobilizing saving deposits and showed little interest in this regard. Two types of individual savings include compulsory savings which stay with the MFI until the client leaves the program and voluntary savings which the client can withdraw any time and also two major reasons not to save. The first one is the mistaken belief that the poor cannot save, and the second one is due to regulatory constraint of license to mobilize deposits. Recent microfinance experience shows that even poor households would deposit their surplus in MFI provided, that they get attractive interest rate, convenience location (priority and accessibility), security (the safety of the saving option), and ease of withdrawal (Ledger wood,1999).

Financial sustainability of MFIs has to charge on effective interest rate that covers all costs incurred in providing financial services to the poor. Both saving outreach and the quality of volume of lending can benefit from positive real on lending rate that covers the true risk and full administrative costs associated with lending to target group. A positive interest rate will enable MFIs to pay competitive interest rates on deposits. Paying competitive interest rates can simultaneously stimulate both savings mobilization and the volume of lending. Charging high interest rate to poor borrowers may not be easy and also may not be acceptable to all people. It needs appropriate policy environment and staff commitment (Yaron, 2002).

2.1.11 Performance measurement indicators

There are several performance indicators that could be used to analyze the overall performance of MFIs. The most widely applied performance indicators which were developed by Small Enterprise Education and Promotion Network (the SEEP Network), the Consultants Group to Assist the Poor (CGAP) and the Micro rate Africa, are used to measure the performance.

It is possible to evaluate the performance of an MFI using one of the above approaches. But in this research the researcher selected the Consultants Group to Assist the Poor (CGAP) approaches to supplement indicators that the other approach has not covered.

The financial sustainability and outreach indicators are usually ratios calculated from the financial reports (balance sheet, income statement and operational report). For the purpose of this research, the performance indicators are organized basically growth and outreach ratios, sustainability/profitability ratios, efficiency and productivity ratio and portfolio quality ratio and welfare impact.

2.1.11.1 Outreach

Outreach means the number of clients served. But, Meyer (2002) noted that Outreach is multidimensional concept. In order to measure outreach we need to look in to Different dimensions. The first is simply the number of persons now served that were previously denied access to formal financial services. Usually these Persons will be the poor because they cannot provide the collateral Required for accessing formal loans, are perceived as being too risky to serve, and impose high transaction costs on financial institutions Because of the small size of their financial activities and transactions. Women often face greater problems than men in Accessing financial services so number of women served is often measured as another criterion. Although difficult to measure, depth of poverty is a concern because the poorest of the poor face the greatest access problem. Some measure of depth of outreach is needed to evaluate how well MFIs reach the very poor. Finally, the Variety of financial services provided is the criterion because it has been shown that the poor demand and their welfare will be improved if efficient and secure savings, insurance, remittance transfer and other services are provided in addition to the loans that are the Predominant concern of policy makers.

There are five aspects of measuring Outreach depth, worth of users, cost to users, breadth, length and scope. Where, depth of outreach refers to the value the society attaches to the net gain from the use of the micro credit by a given borrower. This measure is to identify the poor clients. Because, the poor are the one who fail to get access to get credit from formal Financial institutions since they fail to signal that they can repay their loan (Conning, 1997). And, worth of outreach to users refers to how much a borrower is willing to pay for a loan similarly cost of outreach to user refers to cost of a loan to a borrower.

These costs to users might consists of Prices like interest rates and various payments that they have to pay, which could be revenue to the lender, and other loan related transaction costs like expenses on documents, transport, food, taxes, etc.

Finally, breadth of outreach is the number of users length of outreach is the time frame in which a Microfinance organization produces loans, and Scope of outreach is the number of type of financial contracts offered by a microfinance organization. It is argued that length of a loan matter, because if the microfinance institutions support the poor only in the short run it will hamper the social welfare of the society in the long run. In the case that when the client of the microfinance institution knows that he/she will not receive additional loan in the future they would have no incentive to borrowers to repay their loan (Navajas et al. 2000).

On the other hand outreach is “a hybrid measure that assesses the extent to which a Rural Financial Institution (RFI) has succeeded in reaching its target clients and the degree to which the RFI has met the clients demand for financial services” (Baron, 2002). Growth of outreach has some positive implications for financial institutions. First, growth enables the organization to reach large number of clients. Second, growth reduces average operating cost for the institutions. Third, growth helps institutions to satisfy their client’s need through various services. Fourth, growth gives better image of the institutions to attract loan able funds from banks for further expansion and it increases the borrower’s willingness to repay (Schreiner, 2003). However, unless it is well organized and planned, rapid growth may have some disadvantages such as:-

A. Increase in loan arrears- Loan arrears may increase for two reasons. First, rapid growth means increasing new borrowers. New borrowers are more risky than well-established borrowers. Second, expansion makes monitoring difficult.

B. Problem of organizational capacity- The organizational capacity, the skill available may not be consistent to the rapid expansion of the MFIs.

C. Problem to deepen the outreach-The objective of reaching the poorest and increasing number of clients may not be compatible. The scattered settlement of the rural poor the problem of access for communication have negative effect on growth. With this regard, institutions may focus on highly populated communities of urban areas where they can find large number of clients with a very minimum effort and cost.

Most Ethiopian MFIs use a solidarity group approach, whereby clients join into groups of 5 to 7members and co-guarantee each other's loans. These groups meet on a weekly or monthly basis to make loan repayments and savings deposits. Working through groups is an effective means to expand outreach and reduces the transaction costs for MFIs. A few MFIs deliver services through traditional social groups (primarily edirs), who do members also guarantee each other's loans. The co-guarantee mechanism within the groups serves as an alternative form of collateral Ethiopian microfinance (proclamation No40/1996/).

According to International Fund for Agricultural Development's (IFAD's), October 2001) appraisal report, the potential demand for microfinance in rural Ethiopia is estimated to be between 4.2 and 5.5 million households. Currently, MFIs reach approximately 10 percent of this market. Demand is likely to be unmet in the short and medium term Estimates of the urban market for microfinance were not available, but whatever it is, it remains largely unmet. A socioeconomic profile of clients shows that 78 percent of MFI clients reside in rural areas. Five governments backed MFIs serve primarily rural areas and one serves Addis Ababa. Among the smaller non-government supported MFIs, five are urban-based programs and nine are more active in rural than urban areas. With respect to gender, the urban-based programs reach a larger proportion of women, who comprise from 60 to 85 percent of all clients. Overall, approximately 41percent of all microfinance clients are women. There is considerable scope, however, for microfinance to play more of a role in diversifying non-farm activities through new products and services.

Assessing the performance of outreach is difficult, Kereta (2007) Performance outreach take longer to achieve as customers are harder to reach and thus by definition usually harder to help. These customers are normally disengaged from financial services and require some time and investment to build trust and confidence in the service.

The performance of Outreach indicators are stated below.

Table.1 outreach indicators

Ratio	Formula	Explanation
Percentage growth in saving deposit	(Amount of deposits at end of Period (-)Amount of deposit at beginning of period)/ Amount of deposit at beginning of period	The growth in savings mobilization is another indicator of how quickly the institution is increasing outreach in its saving operation.
Growth number of active borrowers	Number of active borrowers end of period-number of borrowers at beg. of period)/ Number of active Borrowers at beginning of period	This ratio measures the percent growth of in number of loan clients as one measure of outreach expansion efforts and ratio supplements outstanding number of active loans at period end. The higher this ratio, the better it indicates the efforts of an MFI.
Proportion of active women borrowers	number of active women borrowers/ Total number of active borrowers	This ratio indicates the accessibility of the loan Provision services of an MFI by women.

Source: Consultant Group to Assist the Poor

2.1.11.2 Financial sustainability

The other indicator of performance of a micro finance institution is its financial Sustainability. Different literatures noted that financial sustainability is one of the areas that we need to look at to assess the performance of micro finance institutions. According to (Johnson & Rogaly, 1997), most of the well-known programmed have been operating in subsidies especially at the

beginning of their operation. Meyer (2002) noted that the poor needed to have access to financial service on long-term basis rather than just a onetime financial support.

Achieving financial sustainability is an important goal for MFIs. It is critical since self-sustaining programmers can operate without subsidies, enabling them to reach more people permanently. Financial sustainability is also said to be a pre requisite of attracting commercial funding, and thus of large-scale expansion. Whilst financial sustainability is an important goal it depends on low overhead and high repayment rate. This means that MFIs should provide their service in areas which are easy and cheap to reach and to people they can be sure to repay. This automatically may exclude the poorest people and the remote rural areas where infrastructure is underdeveloped. Therefore it seems that there is a trade-off between the objective of financial sustainability and the objective of poverty alleviation for MFIs. Most MFIs consider both financial sustainability and poverty alleviation as their core objectives.

Hulme and Mosley (1997) argue that there appears to be a trade-off between improving outreach, in particular reaching the poorest and achieving financial sustainability. This trade-off stems from the fact that MFIs transaction costs are high for obtaining information about the credit worthiness of poor clients. Transaction costs have a large fixed cost component. So, unit costs for smaller savings deposits or smaller loans are high compared with those for larger financial transactions. Decreasing unit transaction costs with increasing transaction size generates the trade-off between improved outreach to the poor and financial sustainability irrespective of the lending technology.

Also it stated that, the financial sustainability of MFI arises due to low repayment rate or un-materialization of funds Promised by donors or governments. According to Meyer (2002), there are two kind of Sustainability that we could observe in assessing MFIs performance: Operational self-sustainability and financial self-sustainability.

Operational self-sustainability is when the operating income is sufficient enough to cover Operational costs like salaries, supplies, loan losses, and other administrative costs.

Financial self-sustainability (which it referred as high standard measure) is when MFIs can also cover the costs of funds and other forms of subsidies received when they are valued at market prices. Measuring financial sustainability requires that MFIs maintain good financial accounts

and follow recognized accounting practices that provide full transparency for income, expenses, loan recovery, and potential losses.

There are also some dispute on the link between financial sustainability and outreach to the poor some outreach and financial sustainability are complimentary this is because as the number of clients increase MFIs enjoys economies of scale and hence reduce costs which help them to financial sustainable. On the other hand, Hulme and Mosley (1997), Argued that there is inverse relationship between outreach and financial sustainability. Here the argument is higher outreach means higher transaction cost in order to get Information about creditworthiness of clients and hence make MFI financially unsustainable including credit in the production function can be used to assess impact of MFIs Regarding indicator of financial sustainability. Therefore (Shahidur, 1995) pointed out that loan repayment (measured by default rate) could be another indicator for financial Sustainability of MFIs. Because of low default rate would help to realize future lending. The new microfinance agenda increasingly emphasize the need to achieve sustainability of microfinance institution. Sustainability is "the ability of a programmed to continuously carry out activities and services in pursuit of its objective" (Shahidur, 1995).

For sustainability, institutions shall be financially and institutionally self-sufficient. In order to get financial self-sufficiency, institutions should be able to cover the following costs from the income they receive.

- Its cost of funds: that is, the interest, which the program has to pay to the provider of its fund.
- Its operating costs: including staff salary, offices and equipment.
- Loan write-off the losses incurred as a result of some borrowers failing to repay their loans.
- Inflation: This should be reflected in a true cost of funds.

Financial self-sufficiency in microfinance is possible through many factors such as, high rate of loan collection combined with increased loan size and, the encouragement of voluntary saving(saving mobilization), and the decrease in administrative costs. Sustainability and profitability reflects the MFIs ability to continue operating and grow in the future. Generally the Financially Sustainability performance of microfinance can be measure, Sustainability indicators, Efficient and productivity indicators and portfolio quality indicators (Havers, 2010).

Table.2 financial sustainability indicators

Ratio	Formula	Explanation
Operating sustainability ratio	financial revenue/ Total expense	This ratio shows the ability of the MFI to cover its total expenses from revenues excluding grants. Operating revenue include financial revenue and other operating income. Both revenues and expenses are unadjusted. An operating sustainability ratio exceeding 100% is indicative of MFIs sustainability in the short run.
Financial sustainability ratio	financial revenue/ total expense	This ratio shows the ability of the MFI to cover its adjusted expenses from adjusted revenues excluding grants. Financial sustainability indicates whether or not enough revenue is earned to cover all the operating, financial and loan loss expenses as well as to maintain the value of the equity and quasi-equity in the organization in relation to inflation. A higher ratio (more than100%) is indicative of a long-term financial sustainability
ROA	Net Operating Income –Taxes/ Average Assets	Measures how well the MFI uses its assets to generate returns. This ratio is net of taxes and excludes non-operating items and donations**.**

Source: Consultant Group to Assist the Poor

2.1.11.3 Efficiency and productivity

Efficiency and productivity indicators are performance measures that show how well the Institution is streamlining its operation. Productivity indicators reflect the amount of output per unit of input, while efficiency indicators also take into account the cost of the inputs and or the price of outputs.

Table.3 Efficiency and productivity indicators

Ratio	Formula	Explanation
Loan officer productivity	number of active clients/ Total number of loan officers	This ratio indicates the average number of active loans handled by loan officer at a given point in time. This ratio is a good indicator of loan officer productivity. The loan officer productivity ratio says a fair amount about how well the MFI has adapted its process and procedures to its business purpose of lending money.
Total personnel productivity	number of active clients/ Total number of staff	This measures the overall productivity of the MFI staff in managing borrowers, voluntary savers and other clients
Operating expense ratio	operating expense/ loan outstanding	This ratio provides an indicator of the overall efficiency of a lending institution and it is also commonly referred to as the efficiency ratio. It measures the institutional cost of delivering loan services. It is regularly assumed that the lower operating expense ratio, the higher the efficiency of an institution.
Personnel Allocation ratio	number of loan officers/ Number of personnel	This ratio indicates the loan officers, relative to the total number of employees. The higher the ratio the more focused the MFI is on its core loan provision activity.

Source: Consultant Group to Assist the Poor

2.1.11.4 Portfolio quality

Portfolio quality is a crucial area of analysis, since the largest source of risk for any financial institution resides in its loan portfolio. Fortunately, many microfinance institutions have learned how to maintain loan portfolios of very high quality. In fact, leading microfinance institutions typically better at maintaining a higher portfolio quality than their commercial bank peers in many countries (Micro Rate et al, 2003).

The quality of loan portfolio determines the institutions over all financial health. For microfinance institutions, whose loan are typically not backed by bankable collateral, the quality of the portfolio is absolutely crucial. If an institution is on lending the savings of its clients, it needs to ensure that their savings are invested responsibly. If the portfolio is not sound, the institution may not survive. The loan portfolio is normally by far largest assets of an MFI and its primary source of earned income. The risk that some of the loans will not be paid back must be anticipated. Management of this risk is very important to sustainability of MFIs.

Table.4 Portfolio qualities indicators

Ratio	Formula	Explanation
Portfolio at risk > 30 days	Total loan portfolio with arrears> 30 days/ Adjust Gross loan portfolio	This rate measures the percentage of the outstanding gross loan portfolio that could be lost uncollected unless collection efforts are improved. This ratio is the most accepted indicator of portfolio quality. When referring to the PAR rate, an MFI should always specify the number of days used for cut- off days such as 30 or 90 days. Best practice uses the 30- day's cut-off.
Portfolio risk coverage ratio/repaym ent rate	Adjusted Loan loss allowance/ Portfolio at risk for loan portfolio> 30 days	This ratio tests the adequacy of the loan loss reserve in covering the portfolio at risk. The higher the ratio the better the protection of the loan portfolio and voluntary deposits.

Source: Consultant Group to Assist the Poor

2.1.11.5 Welfare Impact

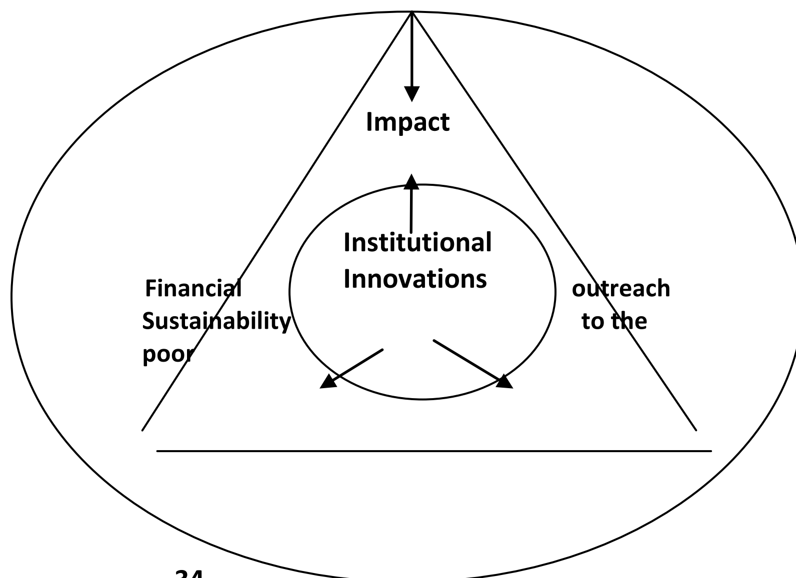
Welfare impacts of the services of MFIs are also argued to be another indicator to evaluate the performance of the institutions. As indicated at the beginning of this paper, one way or another, the objective of MFIs is reducing poverty. Hence, which imply that we need to access the impact of the microfinance programs on reducing poverty to evaluate the performance?

As defined in World Bank (2000/01) report poverty is viewed as lack of money, lack of adequate food, shelter, education and health and the poor are vulnerable to ill health, economic dislocation and natural disaster. This perspective of poverty can be used to access the impact of the MFIs on those who receives the services. Meyer (2002) also noted that assessment of impact of the MFIs on their clients is a very difficult and controversial way of evaluating the institutions performance.

Given the prevailing challenges, however, in the impact assessment process, several Impact indicators are noted in literatures. Mostly, the impact indicators can be categorized as economic and non-economic benefits.

The overall performance of MFIs is also improved by internal institutional innovations that contribute toward improvement of financial sustainability, outreach and impact. According to Yaron (2002), institutional sustainability is necessary to obtain a high level of financial sustainability and outreach. Favorable socio-economic as well as macroeconomic environment could also facilitate the development of microfinance institution.

The triangle shows economic sustainability of Microfinance



Source: - Zeller and Richard Meyer (2002) has argued that a triangle of microfinance the inner circle in figure1 represents the many types of institutional innovations that contribute to improving are:-

- Financial sustainability (such as employment of cost-reducing information system).
- Impact (such as designing demand-oriented services for the poor and more effective Training of clients).
- Outreach to the poor (such as more effective targeting mechanisms or introducing lending technologies that attract a particular group of clients).

The outer circle represents the socio economic environments as well as macroeconomic and government policies that directly or indirectly affect the performance of financial institutions. Innovation at institutional level (the inner circle) and improvement in the policy environment (the outer circle) contribute to improving the overall performance of financial institution.

2.1.12 Challenges of outreach and financial sustainability of microfinance performance.

In Ethiopia there are few studies under taken in relation to challenges of Micro finance not to efficiently operate. Seyoum (2007) examines client outreach for most MFIs are:-

- Screening process of clients.
- Shortage of experienced human resources.
- Shortage of Logistics in rural areas such as road, telephone, etc.
- Lack of adequate information about the client's financial management and absence of recorded evidence.
- Problem of clients to target on profitable business, and sometimes lack of understanding of clients about the operation of the institutions.

Some of the financial sustainability constraints of MFIs in Ethiopia

- Many donors are not keen about MFIs and reluctant to fund.
- Less saving habits.
- Limited loan products.
- Absence of legal title of assets in rural areas.
- Easy dissemination of bad mouthing (some clients are not visionary; they use immediate benefits in illegal way).
- Less willingness from commercial banks to lend to MFIs without collateral.

2.2 Empirical studies review

According to Daniel (2010) it is conflict there data about the true value of micro finance institution as poverty reduction tools, while many micro finance institutions advertise high client outreach and better financial sustainability. The evidence that a microfinance institution creates appreciable reduction in poverty is inconclusive. To make significant impact microfinance institution must be made available to a very broad segment of society and be coupled with entrepreneurial ability on much of the joy of the movements early days has dissipated and few now see microfinance institution on its own reduction for global poverty. Despite this emerging sense of realism, there is still a relatively broad consensus about efficient operation, financial sustainability and outreach to the poor.

The micro finance institutions participation in several developing economies is growing from time to time. Also various studies would be studied on different countries. The outreach and financial sustainability of Microfinance institutions in Africa shows that in terms of breadth of outreach; sub-Saharan MFI have a higher number of savers than other regions of the world. However, in terms of number of borrowers, Africa is lagging behind South Asia and East Asia and the Pacific. In terms of depth of outreach measured by the percentage of women borrowers, sub-Saharan Africa has 61% women borrowers as compared to 86% in south Asia and 80% in Middle East and North Africa (MENA) and 76% in East Asia and Pacific. Sub-Saharan Africa MFI has the lowest financial performance of ROA of 2% as compared 7.6%-10% of Eastern Europe and Central Asia (Lafourcade et al, 2005).

One of the well done studies in the global microfinance industry is the study by Cull et al (2007) note that their study they have used data from 124 MFIs from 49 developing countries. They have not compared the performance of the MFIs with a benchmark but the result of their studies can be summarized as follow:- The average Financial Self Sufficiency (FSS) is found to be 1.035 meaning MFIs are becoming financially self sufficient, OSS is a bit greater 1.165, whereas Adjusted ROA is negative (-0.027). The adjusted ROA shows that most MFIs have no positive return on their investment. Depth of outreach indicator like percentage of women borrowers is found to be 64.9% and GLP to assets of 68.9%.

According to Hartarska (2004) has studied Microfinance governance in Central and Eastern European region and he found that: - The average ROA is 3.038 indicating profitable MFIs in this region, and OSS of 91.99. They do have an average number of 7268 borrowers.

For the Ethiopian case, there are few studies undertaken in relation to MFIs. But, the Objectives addressed in these previous studies are different, insuring the value added of this study. Lakew (1998) examines Project office for creation of Small Scale Business Operation (POCSSBO) of micro financing program contribution to poverty reduction. He found that after the credit program employment opportunity for the beneficiaries have been created. He also noted that the credit program of POCSSBO had positive effect on income and saving of the clients. In addition, He stated that medical, education and nutrition access of the clients had been improved.

Similarly, Aklilu (2002) reviews the importance of micro finance institutions in developing economies based on countries experiences. In the review he suggested for Promotion of the existing well developed institution 'iddir" to facilitate growth of formal MFIs.

In 2007, Kereta also conducted by simple correlation econometric analysis technique and descriptive analysis technique was employed in the analysis process and reveals the following results. He studied the industry‘s outreach and financial performance using simple descriptive analysis using graphs and percentage growth rates. The result of his study showed that in terms of breadth of outreach, MFIs are serving an increasing number of clients in each year from 2003-2007. The industry‘s growth rate in terms of number of clients is 22.9%. In terms of depth of outreach measured by average loan size. Ethiopian MFIs have a loan size which is on average nearer to the standard $150 (Birr 1352). So they can be considered pro poor.

The study conducted by Adeno (2007) was one of the largest MFIs in Ethiopia Amhara Credit and as delinquency rates are around 1.9**%** of >30 days**.** The average loan and savings balances, ROA, ROE, Yield on Portfolio and Operating Expense to Total Expense over the five year were 2,702.00 Birr, 4.5% , 13%, 16.58% and 65.95% respectively. Moreover, ACSI performed debt to equity ratio and loans to total assets ratio of 230.88% and 68.73% by 2005, the institution was operationally and financially self sufficient at 119.9% and 115.3% respectively. The operating cost was as low as five cents in 2005. ACSI also has a high portfolio quality (Adeno, 2007).

Haile Selassie (2001) assessed the financial viability and outreach of two MFIs in Ethiopia, namely SFPI and PEACE operating in urban and rural area respectively. According to his study,

the sample MFIs increased outreach and mobilized significant amount of savings. The number of savers as well as the value of saving has increased. He also indicated that the repayment rate is very high (98% for SFPI and 99.6% for PEACE). With respect to financial viability, he found out, both institutions as subsidy dependent.

The lending interest income and fees they generate did not cover the administrative expense. However the trend of their financial performance demonstrates that there was encouraging and steady progress towards reaching operating self-sufficiency.

Tsegaye (2005) conducted a study on the performance of Ethiopian microfinance institution. His results showed that the MFIs in Ethiopia have shown a tremendous growth in geographical and Client outreach in short period of time. He indicated that as of December 2003, there were 29 twenty two MFIs with a combined outreach of 755073 loan clients accessing both credit and saving products amounting to birr 594 million and birr 425 million respectively.

According to Alemayehu (2008), MFIs are operationally sustainable as measured by ROA and ROE and the industry‘s profit performance is improving overtime. Dependency ratio as measured by the ratio of donated equity to capital decline and the ratio of retained earnings to total capital is rising letting the industry to be financially self-sufficient. The study also found that PAR is at 3.2% for the period from (2005 – 2007) which is in comfort zone.

Most of the above studies have examined similar approaches. That is, they mainly focused on the overall operational performance of MFIs. So, that outreach to clients and financial sustainability were not specifically addressed in these studies.

This study is different from other studies by the following aspects. First, the study has used most recent data of omomicro finance institution from the year (2012 - 2016). Second, the performance indicators were used both for outreach and financial sustainability. Specifically, the study used growth number of active borrowers, percentage growth in saving deposit and proportion of active women borrower's indicators for outreach to clients for OMFIs. Likewise, operating sustainability ratio, financial sustainability ratio, ROA, loan officer productivity, Total personal productivity, operating expense ratio, personnel allocation ratio, portfolio at risk and repayment rate indicators used for financial sustainability of omomicro finance institution.

2.3 Summary

The chapter review of literature on a wide range of issues about performance of MFIs on outreach to poor and financial sustainability. That all the studies so far conducted are mainly discussing the problems and prospects of Micro Finance Institutions in general at Macro-level. The researcher also observed in the review of literature that there are studies conducted mainly to understand the problems of Micro Finance institution with regard to financial sustainability and outreach. So, the study entitled the Performance of outreach and financial sustainability. A case Study of OMFIs (omomicro finance institution) found in SNNP regional state of Ethiopia.

CHAPTER - THREE
RESERCH DESIGN AND METHODOLOGY

3.1 Description of the Study area

The selected microfinance institutions used as case studies of omomicro finance Institution (OMFI) in the southern regions of Ethiopia .One of the criteria of selecting these OMFI is to capture the activities of MFI which work in both rural and urban areas. Moreover, the OMFI was established in 1997, as part of the national food security programmed by the regional government. Based on a broad federal food security objective of poverty alleviation through intensification of economic growth, the development of financial markets is one of the strategic interventions that the government has put in place. With this background, the OMFI was established to promote access to finance in the region particularly in rural areas. The shareholders of the institutions are the regional government, (owning 80% of the share); local NGOs (19.5% of the share) and individuals (0.5% of the share). Currently, the Omomicro finance Institution is operates at 15 main branches and 165 sub branches of southern nations, nationalist and people's regional state *(*AEMFI, 2002*)*.

This research study was conduct to assess outreach and financial sustainability performance in case of omomicro finance institution for the period covering from / 2012 - 2016/. It consists of research design, sampling procedure &sample size, types of data and instruments of data collection, and methods of data analysis.

3.2 Research Design

The study has adopted descriptive analysis to showing the outreach and financial sustainability performance of omomicro finance institution for the year (2012- 2016). The researcher chooses descriptive analysis because of three reasons. First, other methods such as regression analysis require long time series data, which is not available for omomicro finance. Second, qualitative analysis using survey data is financially demanding. Third, descriptive analysis using quantitative data is the most commonly used methods in the studies. Besides, the study describes these variables by using secondary data. The secondary data was collected from annual reports in order to know the progress of outreach, and financial sustainability.

Income statement, balance sheet and operational report and other relevant document was used to analyze the extent of implementation. Finally, the collection data from secondary data were analyze, summarize, conclude and recommended accordingly.

3.3 Research Procedure and Sample size

This analytical research based on a case study approach. Why because of to understand in depth insight on pike of omomicro finance institution performance. The study focused important the locations where the institutions exist are so scattered, but the researcher believing that if the main branch in Hawassa was chooses it was convenience for the researcher to make thorough investigation the challenges of the institutions and have a data's from other branches. For this end, a recent five-year data from the period (2012 - 2016) were gathered by the researcher to be describing the outreach and financial sustainability performance of the institution.

3.4 Data and Instruments of Data Collection

This study was based on Secondary source of data. In the case of the secondary source of data from the annual financial reports of the institutions such as income statement, balance sheet and operational report of OMFI from the period (2012 - 2016). Although as reference material working paper, internet, reports of various governmental and none Governmental organizations such as Association of Ethiopian Micro Finance Institutions (AEMFIs) were used in the study.

3.5 Data Analysis Technique

To provide some indication of the outreach andfinancial sustainability performance, the data were analyzed by using descriptive analysis. Specifically, the study quantitatively measures and presents findings using graphs, tables and ratios, among other indicators. These techniques were selected by the researcher because of it shows the trend in outreach and financial sustainability during the period under study. Moreover, this method is more popular and is applied by many researchers.

CHAPTER- FOUR

DATA ANALYSIS AND DISCUSSION

To find the major out puts of the study and to suggest important recommendations, the collected data must be analyzed and discussed. Accordingly, the analysis and important findings of the study are discussed under this chapter. This study measures the performance of omomicro finance on financial sustainability and outreach to the poor. The findings stated below are extracted and analyzed from the income statements, balance sheet and operational of the main branches of Omomicro finance institution. In this study, the researcher tries to encompass the major performance measurement indicators, more emphasizes on outreach and sustainability indicators those applied by different scholars in studies of MFIs so far. Moreover, under each performance measurement indicators, certain ratios which describe the performance and fit the data on hand are applied to measure.

4.1 Outreach Performance

The number of client is the performance indicator that, how MFI is reaching the poor. Expanding the number of clients being served is an ultimate goal of almost all microfinance interventions. Outreach can be measured in terms of coverage i.e. the number of clients served and volume of services (total savings on deposit and total outstanding loan portfolio) and depth i.e. to which extent the institution serves poor households and which economic sectors as it mentioned in the literature part of the studies.

Table.5 Active Clients Served

Description	2012	2013	2014	2015	2016	Average
Male	47573	51850	55923	61589	65900	56567
Female	51745	56102	62987	66970	70880	61737
Total	99318	107952	118910	128559	136780	118304
Cooperative	11	51	44	55	52	42
% of client growth		**9%**	**10%**	**8%**	**6%**	**8%**
% female	52%	52%	53%	52%	52%	52%

Source: Researchers' own computation from operational report

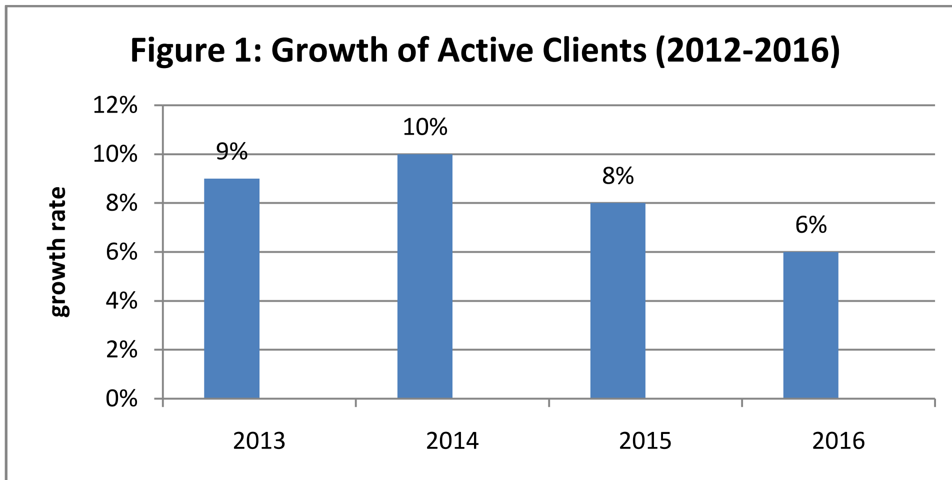
4.1.1 Active Clients served

Active clients are the number of individuals who currently have an outstanding loan balance with the institution or are responsible for repaying any portion of the gross loan portfolio.

As one can see from the table.5 the institution has a total average number of 118304 active clients for the last five years. According to table 5. in the year of 2012 clients' reaches 99318and also in the year 2016 number of clients reach 136780.Also,the last five years answer can observed from the table.5 the average client growth is 8%. But in the year 2014 number of clients growth to 10 % however, in the year 2015 client growth rate 8% and in the year 2016 growth rate are 6% So, within the two consecutive years number of active client decrease each year by 2%. In the above analysis the researcher understands is that during the year 2013 to 2014 number of client are at increasing rate because well advertising, the service provided by institution and its employees to attract those clients, and in year 2015 and 2016 the growth rate was decline. So, institution should be take immediate action for some increment of client's numbers in future to sustain the institution performance.

This analysis indicates that the institution is losing its active as well as potential clients. So, it will be do attention for the institution sustainability as well as re-maintenance of the lost clients in the future.

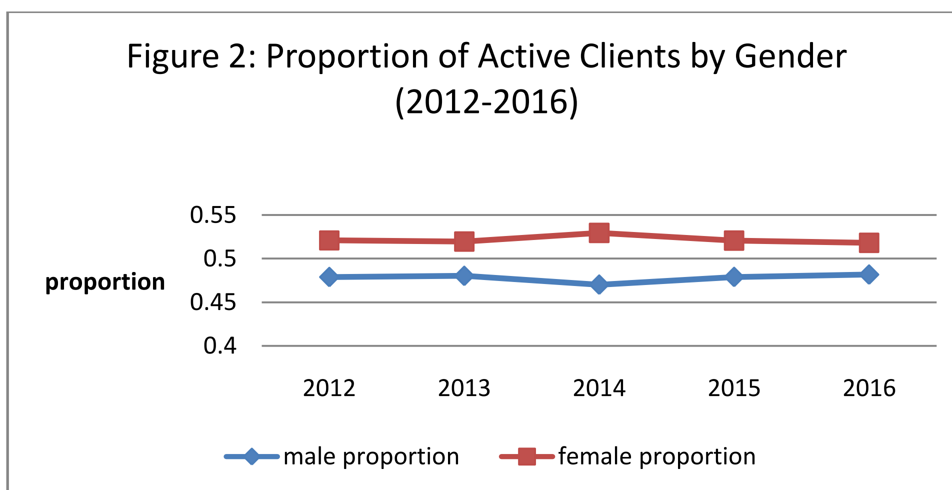
The cooperative societies are the associations of certain group involved in different business activities and each of them have at least 42 members of both sex on average for last five years. The institution gives loan for 55 cooperatives in year 2015 and it is good performance as compared to the later year 2012 which are only 11 cooperatives. From the table 5, what we understand is that growth of cooperatives is increasing from the year 2012-2015, that means 11, 51.44 and 55 cooperatives respectively. However, the number of cooperatives is slightly decreasing from 55 to 52 for the year 2015 to 2016 respectively. Because the availability of other financial institution. Like CBE and private banks. So, the institution must be encouraging more and more to maintain its client because much more employees are involved under one cooperative, have well organized and simple to control them. Generally the figure below represents the trend of active client for the last five years of the institution. According to figure .1 all active borrower was increasing in year 2014.But again decline the recent two years (2015 and 2016).



Source from: / Association of Ethiopian Microfinance Institutions/

4.1.2Active Women Clients

From the table.5 we can observed, how women serving that can be seen by comparing the number of female to male. They represent an average of 52 % of the active clients of the institution and the trends of the ratios shown on the Figure 2, ranges from 52% to 53%. Most of the times, women are hardly served by financial institutions because they couldn't get collateral to be served and are incapable of paying their debt as compared to men. However, the institutions have been losing them from the figure.2 as we observed. This implies that the outreach of OMFI as regard to gender is poor.



Source from: / Association of Ethiopian Microfinance Institutions/

4.1.3 Savings outreach

There are two major types saving products, (compulsory and voluntary saving) in the Microfinance institution. According to Mercy corps (2006), compulsory and voluntary saving are based on different assumptions. Compulsory savings assumes that the poor must be thought to save, and that they need to learn financial discipline. Voluntary savings assumes that the working poor already save and that what is needed is institution and services appropriate to them. It is also believed that compulsory saving can reduce risk of providing loan as it may demonstrate the ability of the client to manage debt and repay loans. Saving is important as it contributes to the sustainability by providing financial security through

Revolve funds independently from outside resources. Besides, it is believed that, saving improve discipline and loan recovery while motivating the clients to manage their money more efficiently (Kidder, 2009).

Table.6 saving outreach from the year (2012 – 2016)

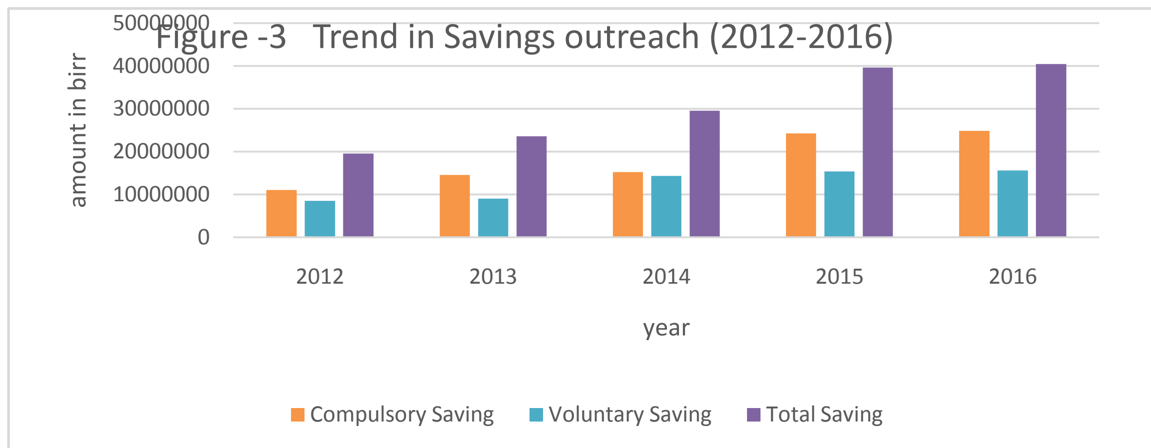
year	Compulsory saving(ETB)	Voluntary saving(ETB)	Total saving	No of active savers	Voluntary/ total saving %	Growth of saving	Saving per borrower(ETB)
2012	110235766	84739530	195685296	109317	43%		1970
2013	145193201	90265050	235458251	108472	38%	20%	2181
2014	127902711	113508117	241410828	115575	47%	17%	2556
2015	299981190	153736807	301518559	135223	51%	24%	2932
2016	258564007	155645941	414209948	151910	37%	25%	2660

Source from: /Association of Ethiopian Microfinance Institutions/

From the table.6 above that we understand is both voluntary and compulsory saving is increasing insignificant way. So growth of total saving is higher in the year 2015 and 2016 respectively because during the year primarily the institution gives attention for uncollected loans rather than promoting new clients. If this trend may continue the institution financial sustainability is in a right position. Means if saving increase also the institution financially strengthen.

Both voluntary and compulsory saving is increasing at increasing rate, and compulsory saving is the higher proportion than voluntary saving the result is high amount of uncollected loans in former three years are collected in current year.

Besides this the institution encourages and promotes voluntary savers. Over all the growth of saving culture in the institution is at good performance and as the same time lending outreach were enough capacity would be build by the institution.



Source: form the researchers' own computation table 6.

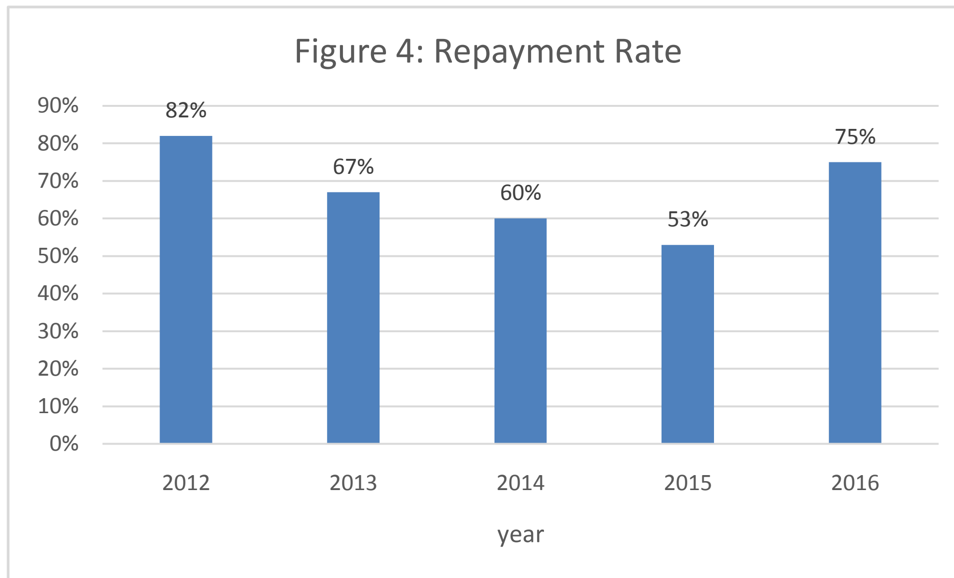
4.2 Portfolio Qualities Indicators

According to ledger wood, (1999) the portfolio quality reflects the risk of loan delinquency. It has a direct influence on the profitability, liquidity, capital adequacy of any MFIs and, therefore, on their sustainability. Management of the portfolio is crucial one for the viability of the loan provision and for the security of client savings. If the quality of the portfolio is poor, the MFIs cannot continue to operate in the long run.

I. Arrears and repayment rate

Arrears are loan amounts overdue from the originally set repayment time and date. In other terms it is the amount that has become due and has not been received. The arrears rate provides an indication of the risk that a loan will not be repaid. The arrears rate shows how of the loan has become due and has not been received. However, the arrears rate understates the risk to the portfolio and understates the potential severity of a delinquency problem, because it only considers payments as they become past due, not the entire amount of the loan outstanding that is

actually at risk. Because of the above reason, the researcher does not consider this ratio in this study. It measures loan repayments collected compared to the total expected outstanding over a given period of time. Repayment ratio is calculated as the amount loan collected / the amount loan disbursed.



Source: form the researchers' own computation table 7.

Through the importance of this ratio is low according to the above figure.4, the researcher tries to calculate this ratio as it can be seen in table.7. The average repayment rate of the institution for last five years is 67% which is significantly far from the industry standard 95percent. However, the performance in 2012 with the repayment ratio of 82% is moderately high because clients repaying their loans on time and also the year 2016 repayment rate was 75%.This was the result of due to high uncollected loans would be collected at a time. Regarding the trends of this ratio, its performance is weak the period 2015 and 2014 which is 53%, 60% respectively as compared to industry standard (95percent) and others study periods.

II. Portfolio at Risk (PAR)

PAR is an indicator or measure of risk associated with the portfolio and the most common international measurements of PAR are > 30 days and > 90 days. The loan portfolio are said to be portfolio at risk, means that the loans are infected to be in arrears. 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.

Often prepayments are not subtracted, so the good works of preparers cover up late payments of those in arrears. The industry standard in world is 95 percent.

The researcher displays portfolio quality with PAR of an average of 0.11% which past due date of up to 30 days. The minimum ratio was 0.024% in the year 2012 and the maximum ratio was 0.18% in 2016. The PAR with more than 30 days up to 90 is 0.10% in average.

The minimum ratio of the institution is 0.06% in 2016 and the maximum is 0.19%in 2014. For the PAR above 90 days but bellow 181 days in average 0.23% the minimum ratio was0.05%in 2012and 2013 while the maximum ratio was 0.63% for the year 2016.For days above 181 up to 365 are 1.17% in average the minimum ratio 0.03% in the year 2013 the maximum ratio 5.5%in the year2012.and for the days above 365, the average ratios are 1.36%, and the ratio 0.04% in 2013 and 6.4% in 2012 shows the minimum and maximum ratio respectively.

From the table.7 someone understand and also examines PAR of the institution by comparing the outstanding balance of all loans with 30 days (PAR > 30) past due payments with the value of current portfolio outstanding. Hence, the result ranges 12% to 0.92%. However, the average over five years is 2.8percent.

Table.7 Average portfolios at Risk

Indicators	2012	2013	2014	2015	2016	Average
1-30days	0.024%	0.11%	0.10%	0.17%	0.18%	0.11%
31-90days	0.06%	0.06%	0.19%	0.12%	0.09%	0.10%
91-180day	0.05%	0.05%	0.17%	0.26%	0.63%	0.23%
181-365days	5.5%	0.03%	0.18%	0.13%	0.15%	1.17%
>365days	6.4%	0.04%	0.13%	0.2%	0.05%	1.36%
>30 days	12%	0.18%	0.67%	0.71%	0.92%	2.8%
Repayment Rate	82%	67%	60%%	53%	75%	67%

Source: Researchers 'own computation from operational report

Table.7 describes PAR for all years and different day's intervals. Concerning to this measurement indicator the lower the ratio the better the performance the institution achieves. From the trend we can learnt that, at the time of good achievement in performance especially in

terms of number of clients, the quality of portfolio increases as the loan provision declines by the institution, the clients motives towards a work also declines, as a result they could unable to pay their loans back to the institutions. The main causes of default of the client for most MFIs are improper selection, ineffective repayment enforcement mechanism, absence of effective group pressure or collateral, negligence of clients and Crop failure in rural areas. The institution starts to take legal action for the amount not paid back after the first notice to the clients as far as they are collateralized.

4.3 Efficiency and Productivity indicators

Efficiency measures the cost per unit of output whereas productivity focuses on the capacity of credit officers to serve as many clients as possible. Figure 6 shows that the summary of efficiency and productivity measurements of the institution.

4.3.1. Operating Expense Ratio

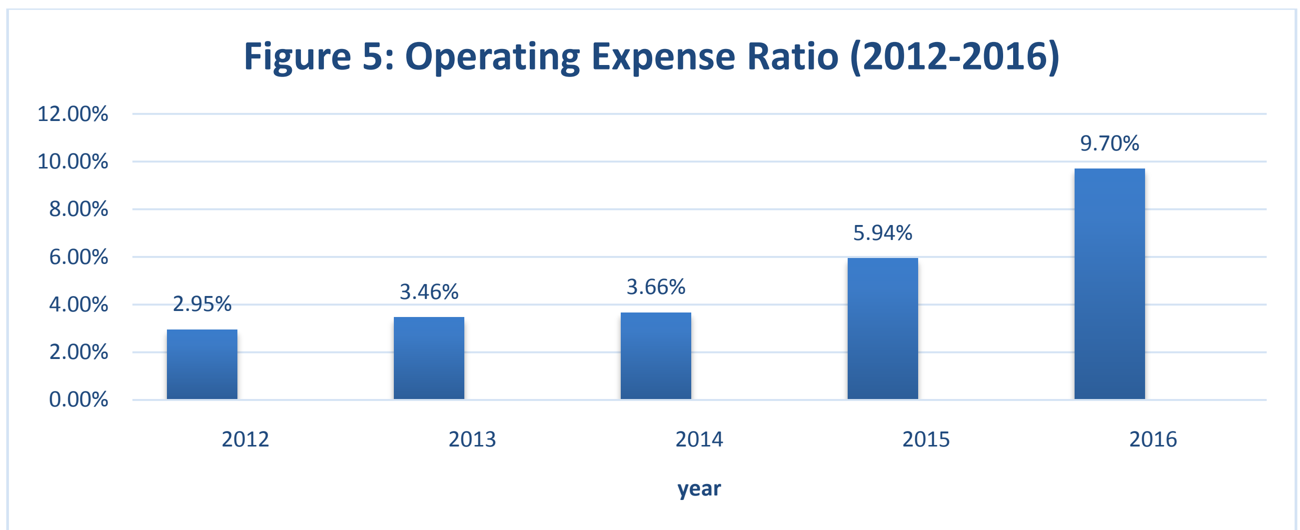
These ratios the most commonly used measurement indicator of the efficiency and productivity. It reveals that how much administrative and personnel expenses to the institution yield on the gross loan Portfolio. It is consists of operating expenses as a percentage of average gross loan portfolio the lower ratio the more efficient of the institution. The operating expense ratio enables the reader to easily compare the expenses of the institution with its revenue.

Table.8 Efficiency and Productivity indicators

Indicators	2012	2013	2014	2015	2016	Average
Operating Expense Ratio	2.95%	3.46%	3.66%	5.94%	9.7%	5.14%
Borrowers per Loan Officer	680	568	508	341	322	484
Active Clients per Staff Member	50	45	44	35	28	40
Personal allocation ratio	7%	8%	9%	10%	9%	9%

Source: Researchers' own computation from operational report

As it illustrated in table.8 the average expense ratio for the last five years is 5.14% that means the operating cost is as low as 0.0514 Birr (5 cent) for 1 Birr portfolio. The trend of this ratio the minimum ratio was 2.95% during the year 2012, while the maximum ratio was 9.7% in 2016. On the other hand 3.46%, 3.66% and5.94%, are indicated in the year 2013, 2014 and 2015 respectively. From this analysis during the year 2015 and 2016 are above the average. This shows the institution incur more expense at a time, especially on the year 2016, the institution paid more operating expenses for recollection of unpaid loans. As result this indicates the institution efficiency is very poor and the sustainability of the institution is under question. But back to year 2012 the case is the reverse, because as we can observed in figure.6, the institution incur 2.95% this shows the institution is profitable improving the efficiency and moving towards sustainability. The reaming year 2013 and 2014 were almost all moderately acceptable results. So the institutions were on the comfort zone during the two years.



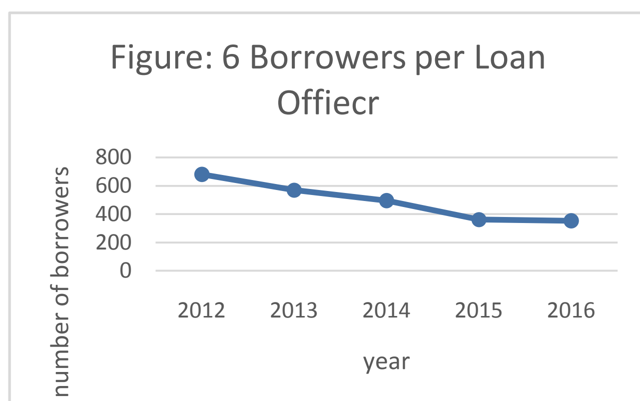
Source: form the researchers' own computation table 8.

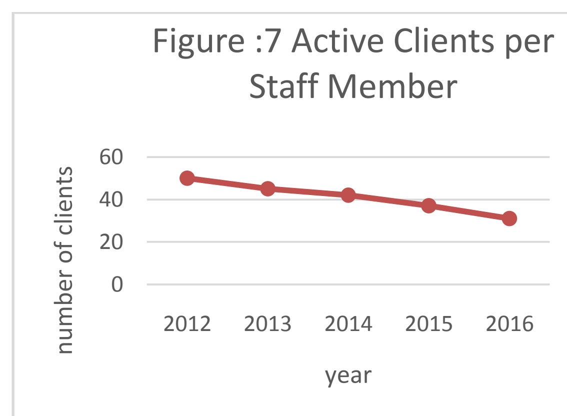
4.3.2 Active clients per Loan Officer

It measures the average caseload of each loan officer and indicates loan officer productivity as well as the institution operational efficiency. It is calculated by dividing number of active borrowers to number of loan officers of the institution. Its interpretation is that, the higher the

number the better the performance. As discovered in table.8 the average caseload to loan officer is 484. In other words, each loan officer serves an average of 484 clients each year. The institution performs well in 2012 with number of 680 borrowers per loan officer. On contrary, the institution efficiency declined to 341 and 322 per loan officer in years 2015 and 2016 respectively as compared to the previous three years. To have the whole picture it is better to see figure 6. This happened due to decline in loan size as it mentioned under outreach of the number of clients. The other element that makes this figure lower and lower is the increments of loan officers while the number of clients is decline.

The reason that the officers increase is as per the official's response, in the later years even if the clients decline, the size of task increases in the institution as the services increase as years goes increase. The loan which had been taken at early years has been collected in later years. Collection of loan takes more time than providing the loan**.**





Source: form the researchers' own computation table 8.

4.3.3. Active Clients per Staff Member

This measures the personnel productivity, i.e. the overall productivity of the institutions total human resources in managing clients who have an outstanding loan balance and are thereby contributing to the financial revenue of the institutions. It is calculated by dividing the number of active clients to the total number of staffs of the institution. The average number in this measurement is 40 as shown in the Table.8 the highest number is 50 on year 2012 and the lowest number is 28 on year 2016. The productivity of the institution is better for earlier three years and declined for the recent two years. As the researcher detected from the trend of the

ratios illustrated on the Figure.7 Meaning of this ratio is just like the active clients per staff member ratio, the higher the ratio of the borrowers per staff member, the more productive the institution. Here, still the institutions staff number increases while clients decline. On the other side of personal allocation ratio almost all the same, not as such much difference between each year.

As result, if the trends go like that in the future, the institutions personnel productivity and loan officer productivity will be under a question. However, the convincing idea here is creating other service like, tax collection, insurance paid, salary paid as agent and collecting the loan as the institution provides during at early years.

4.4 Profitability and Financial Sustainability

Profitability and sustainability are used to measure the financial performance of the institution in general. This reflects the ability of the institution to continue their operations and growths in the future by covering it cost with revenues generated from operation.

Whether the institution working for profit or not, investors (depositors) always prefer profitable and sustainable institution. Sustainability and profitability of the institutions can be measured and analyzed using different ratios. Financial self-sufficiency in microfinance is possible through many factors such as, high rate of loan collection combined with increased loan size and, the encouragement of voluntary saving(saving mobilization), and the decrease in administrative costs (Yaron,2002).

Financial sustainability encompasses both financial self-sufficiency and operational self-sufficiency. The only difference between the two is the former (i.e. FSS) need analytical adjustments to the inflation, subsidy (subsidized cost of fund and in-kind subsidy) and portfolio at risk especially loan impairment loss allowance and write-off.

Even if the institution cover all it costs and haven‘t yet subsidized by any organization, there are some unrecognized cost exist at main office level and need adjustments. These costs categorized under subsidized cost of funds (for instance, training given to the staffs, temporary transfer of employees from branch to the main branch) without payroll recognition of the branch as the researcher observes, and so on). So, doing analytical adjustment by using financial self-sufficiency is difficult and takes more time. In contrast financial self-sufficiency

in microfinance is possible through many factors such as, high rate of loan collection combined with increased loan size and the encouragement of voluntary saving (saving mobilization) and the decrease in administrative costs (Yaron, 2002).

Table.9 Profitability and Financial Sustainability Ratios

Item	2012	2013	2014	2015	016	Average
0SS	303.86	197.85	191	186	142	204%
ROA	5%	4.2%	3.5%	3.2%	3%	3.78%

Source: Researchers' own computation from financial statement

By considering the challenges of adjustments at institution level in this moment, the researcher focuses on only to the operational self-sufficiency and return on asset ratios. The Table.9 shows the ratio of those elements in each year and the average of five years (2012 -2016).

4.4.1. Operational Self-Sufficiency (OSS)

Operational Self-Sufficiency (OSS) measures how well the branch can generate sufficient revenue from operations to cover operating expenses and financing costs of the institution. It is calculated by dividing financial revenue by total operating expenses plus financial expenses of the institution. In other terms, all direct costs are included in determining Operational self-sufficiency of the institutions.

Tabel.9 depicted weather the institution cover expense or not. And the importance of this ratio is directly reflected decline on the institution net worth, if the institution being unable to reach at least break even point of OSS which is 100%. OSS of 1 (or 100%) is the first stage that the institution or any MFIs should reach in its way to long term financial viability. Unless or otherwise, the MFIs waits for donor compensation to keep on its operation. Because the equity would be reduce by losses. When the breakeven value of 1 has been reached, the focus needs to be shifted to the question of financial self-sufficiency.

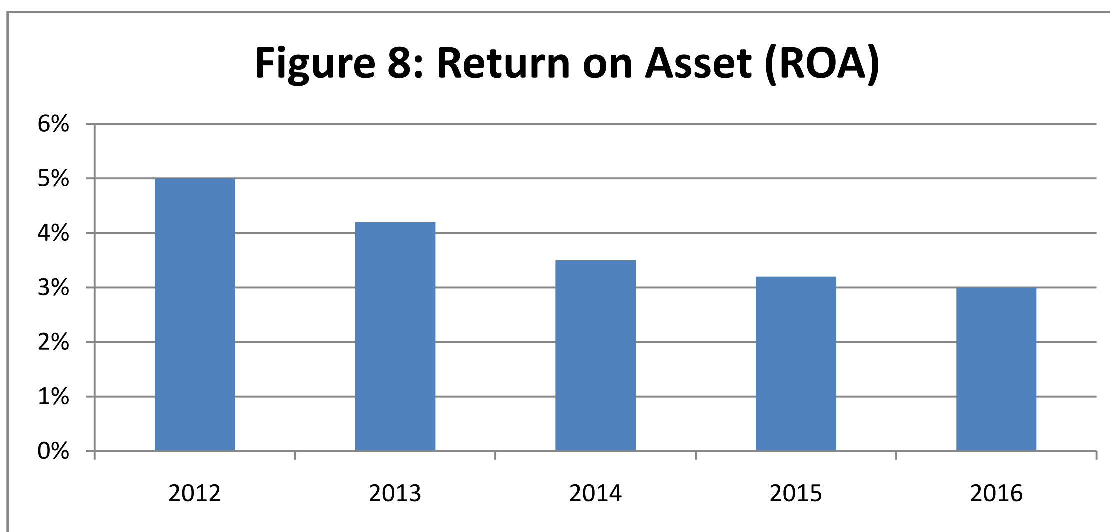
Eventually, when one comes to the outcome of this measurement, the institution achieves OSS ratio above break-even points for years under the study. It performs the highest in 2012 with

OSS ratio of 303.86% and it also performs the lowest ratio in year 2016 which is 142%.From this analysis the researcher observed, total expense in each consecutive years were increased.

So, the lowest achievement is due to the huge amount of doubtful expense recognition by the institution and that undermines the income of the year. The average ratio for five years is 204%. Even if this is above the breakeven points it indicates that the institution is under quotation. Because the trend of the study period was shows decreasing OSS and increasing total expense.

4.4.2. Returns on Assets (ROA)

ROA measures how well the branch uses its total assets (equity and liabilities) to generate returns. Its importance is for both internal management and external stakeholders to evaluate profitability of the branch. So, that the investors (depositors) build their trust on the branch‘s fate to operate in future. It is calculated by dividing the average net income earned by the institution to average amount of total assets. The higher the ratio means, the better the branch‘s performance.



Source: form the researchers own computation table 8.

As it illustrated on Figure 8, the average ROA ratio is 3.78% for last five years. The maximum value in 2012 (5%) it is decline to 3% in 2016. When the trends considered, the achievement is good in former three years as compared to the later two years. The one possible reason for the decline in the year 2016 is, due to the huge amount of the bad debt recognition in this year and bad weather condition for agricultural activities on rural areas in the region. As, result rural clients would be unable to repaying their loan on agreed period. In overall, the Achievement of the institution on profitability and sustainability return on asset, the institution should be take a measurers (like, providing loans for potential borrowers, investing on profitable business, administer by experience human recourse and timely recording of cost &revenue during the study period.

CHAPTER - FIVE

SUMMERY, CONCLUSION AND RECOMMENDATION

This chapter summarizes and briefly discusses the finding of the study. The study was conducted with set of research objective as a guide. It draws conclusions on the entire work and makes recommendations for the study.

5.1 Summary

Two objectives are Paramount for OMFI to be successful: financial sustainability and outreach. In achieving these objectives, OMFI were financially sustained and increase number of outreach. So, that a number of poor was access to financial services. Without significant growth of microfinance institutions, microfinance does not be able to play a leading role in poverty reduction. Given this state of affairs the assessment of microfinance programs remains an important field for researchers, policy makers and development practitioners. This paper is designed to assess financial sustainability and outreach of the microfinance based on the case study of OMFI. The study has used Quantitative survey method to obtain information on outreach and financial sustainability of OMFI with the study period (2012 - 2016). After the gathering of the secondary data then the sustainability of OMFI were measured by using financial ratio analysis. This study tried to examine the challenges that faced not to operate and the performance of outreach and financial sustainability of OMFI.

5.2 Conclusion

- ✓ From the analysis in chapter four, the outreach performance of the institution the number of client were decrease. Especially in recent two years 2015 and 2016. Because weak promotion practices about service provide by institution and the institution mainly focused on recollection of loans that are the past due date rather than encouraging new clients.

- ✓ As the researcher computed, In terms of gender clients, female borrowers were almost the same trends as male borrowers. Only the difference is (2%) in each year.

- ✓ Cooperative was low performance on year 2012 and significant growth in year 2015, but decline in year 2016, because the availability of other financial institution opportunities, like CBE and other privet banks. In overall the institution outreach performance was under question. Because loosing potential clients in recent year.

- ✓ On saving perspective, the total saving from voluntary and compulsory saving is at increasing rate, due to the reason of growing the saving capacity. Compulsory saving is the leading saver than voluntary saving. Besides this the institutions encourages and promote voluntary saving. Over all the growth of saving culture in the institution is at good performance. The more saving the more lending outreach. Therefore, increasing voluntary saving mobilization should be considered as a basis for long term financial sustainability and improved client outreach.

- ✓ The fact that, Portfolio at Risk is not a headache of the institution since it is collateral based institution it performs high portfolio quality of an average of 1.36% for PAR over 365 days. As it described by some literatures, this performance is considered as a good quality.

- ✓ The quality of portfolio is more pleasing for days 1 to 30 , 31 to 90 and 91 to180 past due date, which have the average portfolio at risk of only 0.11% , 0.10% and 0.23% respectively. And the total average PAR over five years greater than 30 days was 2.8%. This analysis indicates that there was uncollectable debt during the study period. However, the quality of portfolio in terms of repayment rate during the year 2012 and 2016 was encouraged when we compare to 2013, 2014 and 2015. The average repayment rate of over five years was (67%), it is too far less than the industry average (95%).This indicate the institution are low quality of repayment rate during the study period.

- ✓ From productivity and efficiency perspective, Operating expense ratio, Borrowers per loan officer, Active clients per staff member and personal allocation ratio are the main focus of the study of those measurements indicators. From the analysis part the researchers conclude that operating expense in year 2016 percentage growth is (9.7%),

this is above the average, and this shows the institution paid more operating expenses for recollection of unpaid loans, and indicate the institution efficiency is very poor and the sustainability of the institution is under question. On the other hand the proportion of active clients for Staff members and loan officers should have declined to each year because the response of decline of gross loan portfolio and client numbers. This is because of the increments in services provided by the institution. Such as, Collection of loan pay backs from the customers which were not exists at early years and Local money transfer services like a commercial banks and etc.

- ✓ From profitability and financial sustainability angle of view, it is found that the OMFI is hopeful though its performance declining over time. It is operational self-sufficient as it achieves an average of (204%) and above breakeven through five years. This is not indicating the sustainability of each year. Because the trained of each year shows at decreasing rate. Although the profitability of institution measured by return on asset. The average of ROA over five year was (3.78%). Also, this ratio does not determine the profitability of institution. The analysis depicted that ROA decreasing each the study periods.

- ✓ As the researcher understands from review literature there are Challenges of omomicro finance institution that faced not to operate efficiently.

- ✓ In the current outreach to clients certainly seem to have a role in customer engagement, in the promoting greater partnership working within local Micro finance institutions. The main conclusions coming from this study is that outreach to clients can be indeed were effective, More effort is required though to understand more fully and systematically who does make use of outreach to Clients and what their outcomes.

Generally the study indicates that growth of client outreach of OMFI has decreased during the period under study. Regarding financial sustainability, borrower per loan officer has decreased, operating expense has increased, and active client per staff member has decreased. Operational self sufficiency and return on asset also decreased. On the other hand, voluntary and

compulsory savings have increased. This implies that except saving, all other indicators show that OMFI has weak financial sustainability during the period under study.

5.3 Recommendation

Based on the findings of the study, the researcher suggests the following recommendations by considering all important points in mind for successful performance of the institution in future sustainability.

- In order to retain clients, the institution should have at least use other mechanisms such as providing access to additional services, training its clients, promote its services, and establish more branches. Because it will be difficult to the institution to retain back those potential clients in the future.

- The institution must be encouraging women borrowers. Because women are most of the time in our context economically dependent. However if they have an opportunity of credit access women have strong potential whatever they work. As women access is still limited, women's access to credit has to be strengthened. So, the institutions take an assignment for the encouragement of women borrowers for future periods.

- Concerning about trends of saving outreach is at streamlining, and the institution is a good performance, there is still under question on the side of voluntary saving. So, far the institution must be encourage and promote the voluntary saver (like. Avoiding biroceracy, providing good service, respecting clients, honesty and the like). As microfinance matures, there is an increasing expectation that the MFI move away from donor funding and fund their growth by accessing private capital, either by borrowing from Commercial banks or by mobilizing deposits.

  But, OMFI has problems in accessing Commercial bank funding. Therefore, increasing voluntary saving mobilization should be considered as a basis for long term financial sustainability and improved client outreach.

- Even if, ratio of Portfolio at risk is small, the amount in arrears (repayment rate) has should be repaid back on time in total amount before it accumulated to a large value.

Because, its effect revealed on operating expense and then eventually on profits of the institution.

- When the number of active borrowers declines the institution should immediately watch out their operating expenses, client per staff and client per loan officer to be cost efficient and personnel productive. Actually it may be difficult to fire and hire staffs now and then, but it is at least possible to maintain the existing number of active clients and staff members. Otherwise, the institution should diversify its activities in some more other means to generate income. The best examples that the institution doing is local money transfer and pension payments on behalf of some other organization. The other potential activities like tax collection, underwriting, insurance, housing rental collection, and so on.

- Concerning on profitability and financial sustainability, financial self-sufficiency is very important tool of measurement and it can be measured after some adjustments made. In order to measure this tool, the institution should record on time whatever the costs that incurred and minimize operational expense. If and only if the costs expected it were covered by the institution, if it was not covered by other means.

- Hence, to minimize the stated challenges on literature review of OMFI have given various possible solutions:- Policy makers have to design effective rules and regulations of contract, enforcement and the implementation should be followed strictly, Loan products have to be diversified, The National Bank of Ethiopia or any government concerned authority should nurture small. MFIs by building their capacity may be by establishing a fund raising unit for loan able capital, appropriate screening mechanism should be sought, strict follow up and capacity building of both clients and credit officers should be done.

Although, Policy makers and experts in the government sector should understand the role of micro finance intervention in poverty alleviation and they should formulate well functioning and realistic elastic legal system in order to enhance the contribution of towards poverty alleviation.

In general from the researcher's computation the institution critically discuses about why potential client are losing gradually? Assess the internal and external problem and, the institution must be encouraging women borrowers, and promote voluntary savers, the institution should immediately watch out their operating expenses and record each expense on time. Critically observe and analysis the problem and take immediate response by using different measurement tools, and discussed so far, in order to achieve its long run financial sustainability.

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Appendixes

Appendix 1: Consolidated Balance Sheet

Omomicrofinance Institution.

consolidated Balance sheet

For years 2012 to 2016 G.C

Items	2012	2013	2014	2015	2016
Current asset					**Asset**
Cash on hand	332,738	468,314.61	835,745.80	1,651,882.24	1,196,990.15
petty cash	950	950	950	3,000.00	3,000.00
cash at bank	2,859,368.78	9,792,113.15	1,970,593.50	907,183.70	2,011,302.10
Staff debtors	4,319.85	64,660.80	8,411.62	16,203.86	9,630.70
Loan & Advance	22,011,341.31	37,702,107.20	52,643,115.60	77,233,408.55	47,439,333.18
Allow.for bad debts	-215,160.30	-826,716.90	-1,642,510.85	-2,150,379	-7,267,643.05
A/R from others	880,771.56	976,544.03	1,148,298.95	830,674.10	889,701.02
A/R from Home Office	4,070,800.33	4,809,299.24	29,944,221.10	27,856,253.00	18,087,065
Prepayments	267,000.00	86000	68,300.00	96,800.00	655,232.00
Other than office sup.	32,224.25	265,477.05	1,008,177.51	207,628.35	1,025,920
Office supplies	52,316.91	75,069.88	152,259.24	42,535.01	35,039,762.22
Sub Branch account	5,902.55	3,502.44	5723	2,950.00	9750
Total current Asset	**30,302,574**	**53,417,321.50**	**86,143,285.47**	**106,698,139.81**	**99,100,043.32**
			Fixed Asset		
Office furniture	1,139,722.60	924,652.70	215,200.25	232,597.15	625,635.15
Acc.depn.off.equip.	-41,000	-55,337.76	-72,108.90	-86,881.73	-104,311.20
Motor Vehicle	1,039,120.35	289,120.35	584,120.35	239,120.35	1,039,120.26
Acc.depn. Vehicle	-24,366.44	-24,350.55	-24,350.55	-24,350.55	-124,350.55
Office Equipment	603,402.00	28,735.84	133,960	415,314.12	620,841.54
Acc.Depn.off. depn.	-5,011.88	-7,422	-10,000.60	-16,206.08	-23,500.15
Computer	131,448.66	18,448.66	18,448.66	18,449.07	922,433.63
ACC.depn.comp.	-4,629.09	-3,583.92	-5,238.78	-7,302.64	-509,157.50
Total Fixed Asset	**2,838,686.20**	**1,170,263.32**	**840,030.43**	**770,739.69**	**2,446,711.18**
Total Asset	**33,141,259.8**	**54,587,584.82**	**86,983,315.90**	**107,468,879.50**	**101,546,754.50**

Liability					
Working Cap. Sav		8565808.63	0	0	20,448,870.21
personalsaving		3750113	4278759.55		2,751,658.25
Group Savings	2,372,824.01	2,787,214.60	3,312,120.30	10,445,375.20	4,297,388.21
Center savings	1,416,202.23	2,439,774.35	8,256,624.62	7,461,073.19	1,088,764.12
A/P branch	660	725	7505	3550	4559
A/Payable	637,150	1,625,849.65	2,505,393.90	2,599,112.20	6,200,027.55
Other payables	21,243.29	29,981.15	27,521.29	55,631.25	54,631.28
A/p Sub branch	9,303.20	1,003,226.30	15,455.69	14,955.69	9,019,696.95
Total Liability	**4457382.73**	**20202692.68**	**18403380.35**	**31149151.35**	**43,865,595.57**
Capital					
Branch capital	26,932,420.16	32,312,584.24	65,530,608.10	73,279,146.74	84,866,858.02
Profit (Loss)	1,751,457.00	2,072,307.90	3,049,327.45	3,040,581.41	2,814,300.91
Total capital	**28,683,877.16**	**34,384,892.14**	**68,579,935.55**	**76,319,728.15**	**87,681,158.93**
T.Liab.&Cap.	**33,141,259.89**	**54,587,584.82**	**86,983,315.90**	**107,468,879.50**	**101,546,754.50**

Appendix 2: Consolidated Income Statement

Omomicrofinance Institution.

Consolidated Income Statement

For years, 2012 to 2016 G.C

Items	2012	2013	2014	2015	2016
financial income from Loan	2,523,254.30	2,980,875.50	4,024,030.25	5,319,145.45	6,667,192.80
Interest income from Bank	0	0	500000	400000	0
Commission	0	26,810.45	42,383.10	45,850.16	373,675.79
Other income	58,607	571,280.30	587,210	136,510.05	458,027.60
Total Income	**2581861.3**	**3,578,966.25**	**5,153,623.35**	**5,901,505.66**	**7,498,896.19**
Expense					
Inter. Expense Personal Saving	68,456.53	77,860.21	116,047.50	129,540.67	248,370.67
Inter. Expense Group Saving	73,000.42	89,264.55	103,342	149,379.25	160,111.19
Inter. Expense Central Saving	11,721	12,747.04	15,527.35	19,790.23	21,130
	153177.95	**179871.8**	**234916.85**	**298710.15**	**429611.86**
Total Salary and Allowance	361,712.70	518,206.55	721,767.84	844,381.10	1,052,525.47
Total General Expense	315,513.45	808,580	1,147,611.21	1,717,833	3,202,457.95
Operative Expense	**677226.15**	**1326786.55**	**1869379.05**	**2562214.1**	**4,254,983.42**
Total Expense	**830404.1**	**1506658.35**	**2104295.9**	2860924.25	**4,684,595.28**
Profit(Loss)	**1751457**	**2,072,307.90**	**3,049,327.45**	**3,040,581.41**	**2,814,300.91**

Appendix- 3 Consolidated Operational Report

Omomicrofinance institution

For the year end2012 to 2016 G.C

particular	sex	2012	2013	2014	2015	2016
no.of staff	M&F	1970	2398	2724	3605	4873
Noofloan officer	M&F	146	190	234	377	424
No. of active client	male	47573	51850	55923	61589	65900
	female	51745	56102	62987	66970	70880
	total	99318	107952	118910	128559	136780
	coopprative	11	51	44	55	52
Amount loan disbersed		21,161,499.0	37,550,394	49,279,328	39,273,128.14	54766475
Amountloan collected		17375275.5	25000357	29745671.61	20979779	37060420.5
	%loan colected	82%	67%	60%	53%	68%
loan outstanding		22951037	38278021	51046558	43102740	52585102
Total client with loan		11200	12540	12974	12345	13790
outstanding						
	volentary saving	84739530	90265050	146508117	153736807	155645941
	complosry saving	110945766	145193201	151902711	242781752	248564007
Total saving		195685296	235458251	298410828	396518559	404209948