ST. MARY UNIVERSITY

SCHOOL OF GRADUATES STUDIES

DEPARTMENT OF ACCOUNTING AND FINANACE

AN ASSESSEMANT OF SOCIAL AND FINANCIAL PERFORMANCE DETERMINANTS: LESSONS FROM SELECTED ETHIOPIAN MICRO FINANCE INSTITUTIONS (MFIs)

PREPARED BY: MAMARU GISLAW

RESEARCH ADVISOR: ASMAMAW G. (Ass.prof)

December, 2018

Addis Ababa, Ethiopia

DECLARATION

I, Mamaru Gislaw, hereby declare that this thesis entitled "An Assessment of Social and Financial Performance Determinants: Lessons from Selected Ethiopian Micro Finance Institutions (MFIs)" is the outcome of my own effort and that all sources of materials used for the study have been duly acknowledged. This study has not been submitted for any degree in this or any other university. It is offered for the partial fulfillment of the requirements of MBA in Accounting and Finance Program.

Name: Mamaru Gislaw

Signature: ________________________________

ENDORSEMENT

This is to certifying that the thesis "An Assessment of Social and Financial Performance Determinants: Lessons from Selected Ethiopian Micro Finance Institutions (MFIs)" undertaken by Mamaru Gislaw for the partial fulfillment of MBA in Accounting and Finance has been submitted to University School of Graduate Studies for examination with my approval as an advisor.

Signature::____

Date: ____

APPROVED BY BOARD OF EXAMINERS

______________________________	______________________________
Dean, College of Business & Economics	Signature& Date
______________________________	______________________________
Advisor	Signature & Date
______________________________	______________________________
External Examiner	Signature & Date
______________________________	______________________________
Internal Examiner	Signature & Date

TABLE OF CONTENTS

TABLE OF CONTENTS i

LIST OF TABLES iv

LIST OF ACRONYMS v

ABSTRACT vii

CHAPTER ONE

1. INTRODUCTION 1

1.1. Background of the Study 1

1.2 Statement of Problem 4

1.3. Objectives of the Study 5

1.4 Research Questions 6

1.5 Significance of the Study 7

1.6 Scope and Limitation of the Study 8

1.7 Organization of the Study 8

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE 9

2.1. History of Microfinance 9

2.2. History of Microfinance in Ethiopia 12

2.3 Perspectives in Performance Measures of MFIs 12

2.4 Depth of Outreach 15

2.5 Portfolio at Risk 17

2.6 Average outstanding balance / GNI per capital 20

2.7 Cost per borrower 21

2.8 Number of offices 22

2.9 Operational self-sufficiency (OSS) 22

2.10 Percent of women borrowers 22
2.11 Write-off ratio 23
2.12 Return on Assets 23
2.13 Social Performance of MFIs 24
2.14 Social Performance Management (SPM) 25
2.15 Importance of Social Performance Today 25
2.16 Challenges in Financial performance and growth of MFIs 27
2.17 Empirical literature 30
2.18 Conceptual Framework 33
CHAPTER THREE
3. RESEARCH METHODOLOGY 35
3.1 Research Philosophy 35
3.2 Study Approach 36
3.3 Research Design 36
3.4. Target Population 37
3.5. Sampling Technique and Sample Size 37
3.6. Source of Data and Methods of Data Collection 38
3.7. Data Analysis Technique 39
3.8 Correlation 40
3.9. Variable definition 40
3.10. Model Specification 42
3.11. Hypothesis of the Study 42

CHAPTER FOUR

4. DATA ANALYSIS AND INTERPRETATION 44
4.1. Summary of Descriptive Statistics 44
4.2. Tests for the Classical Linear Regression Model (CLRM) Assumptions 46
4.3. Regression Results for the performance of Ethiopian Microfinance Institutions 53
4.4 Discussion of the Results 54
4.5 Social Performance of the Studied MFIs 57

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATIONS 65
5.1. Conclusion 65
5.2. Recommendations 67
References 69
Summary of Descriptive Statistics 75
Regression result 76

LIST OF TABLES

Table 1: Summary of Descriptive Statistics 44

Table 2: Heteroskedasticity Test:White 49

Table 3 Multicollinearity test........ 51

Table 4: Summary of One Way ANOVA on Determinants performance of Ethiopian three Microfinance Institutions from perspectives of ROA Structures........ 52

Table 5 Regression Results the performance of three selected Ethiopian Microfinance Institutions 54

LIST OF ACRONYMS

ACSI- Amhara Credit and Saving Institutions S.C

AdCSI -Addis Credit and Saving Institution S.C

AEMFI- Association Ethiopian Micro-Finance Institutions

AVFS- African Village Financial Services

CAP- Capital Asset Ratio

CERISE- Knowledge and Tools for Ethical Finance

CGAP- Consultative Group to Assist the Poor

CLRM- Linear Regression Model

CONS- Market Concentration

DECSI- Dedebit Credit and Saving Institutions S.C

EFE- Operational Efficiency

FSS- Financial Self-Sufficiency

GDP- Growth Domestic Product

GR- Gearing Ratio or Debt/Equity ratio

MDGs- Millennium Development Goals

MEKLIT- Meklit Microfinance S.C

MFIs- Micro Finance Institution

NBE-National Bank of Ethiopia

NGOs- Non Governmental Organization

OCSSCO- Oromiya Credit and Saving S.C

OSS- Operational Self-Sufficiency

PAR- Portfolio at Risk >30 Days

PEACE- Povrty Eridaction and Community Empowerment Microfinance S.C

RMP- Relative Market power

ROA- Return on Asset

ROE- Return on Equity

SCP- structure conduct Performance

SEPI- Specialized Financial and Promotional Institutions S.C

SIZE- Size of Micro Finance Institution

VMFI SC-Vision Fund Micro Finance Institution S.C

SMP-Social Performance Management

(AwCSI)- Awachi Saving and Credit S.C

ABSTRACT

The overall objective of this study was to analyze determinants of Micro Finance Institutions performance in Ethiopia and evaluate their social performance. The study adopted an explanatory and descriptive qualitative research design. Samples were taken from AdCSI, AwCSI and VMFI annual financial data over a period of ten years (2008-2017). The collected quantitative data was analyzed using descriptive and inferential statics, while content analysis was employed to analyze the qualitative data gathered through interview.

The findings to the study inverse relationship between the depth of outreach of MFI and Number of office, Cost per borrower, Average outstanding balance /GNI per capital and write off during the period. The negative coefficients of these indicators mean that there is risk business environment.

It shows that Write-Offs During the Period (WODP),number of office , cost per borrower and Average outstanding balance /GNI per capital has negative indications to the profitability of Selected Micro finance performance leads to insignificant by decline the profitit of institution's. The studied MFIs were found to be fairly good in terms of their social performance based on critical dimensions of targeting and outreach products and services, benefits to clients and social responsibility. In order to enhance their profitability, the targeted MFIs are suggested to give utmost attention to their cost of borrower, number of office, Average outstanding balance/GNI per capital and write off during the period.

Key words: ROA, Performance, Financial Institutions

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

It has been widely argued that financial authorities in most developing and transitional economies have given more emphasis on bringing formal financial services to the large numbers of the world's poor who currently lack adequate access or excluded from formal financial service (CGAP, 2012). Low-income people seldom realize their economic opportunities through financial resources of conventional commercial banks chiefly, loan services. The poor are considered high-risk borrowers; their loan sizes are small requiring high transaction costs; they cannot present high valued collaterals; and their income sources are highly unstable. According to Economist Intelligence Unit (2013), the poor long relied on alternative sources of finance: small loans and grants from close relatives, loans from self-established Rotating Savings and Credit Associations (ROSCAs), loans from Saving and Credit Cooperatives (SACCOs), and loans from traditional local moneylenders often at unaffordable rates.

Microfinance is the provision of banking services to lower –income people, especially the poor and the very poor (Christen et al., 2003), while Microfinance Institution (MFI) is an organization that offers financial services to the poor (Waithaka, 2013). This includes a wide range of providers that vary in their legal structure, mission, methodology and sustainability. They however share the common characteristics of providing financial services to a clientele poorer and more vulnerable than bank clients (Ledgerwood and White, 2006). The start of micro lending institutions in the 1970s, which later grew to microfinance institutions with added financial services to the financially excluded poor, has received a warm welcome globally. Unlike commercial banks, MFIs use

methodologies such as solidarity group lending, progressive loan structure, immediate repayment arrangements, regular repayment schedules, and collateral substitutes to minimize associated financial risks and thereby reach the poor (Al-Baghdadi and Brüntrup, 2002). For instance, the Consultative Group to Assist the Poor (CGAP) reported that conventional banks in Sub-Saharan Africa serve only one quarter of the total borrowers. The remaining three-quarter borrows from nonbank financial intermediaries, nongovernmental organizations, credit unions/financial cooperatives and others. Banks held 53 percent of the total loan portfolio and 60 percent of the total deposits (CGAP, 2011). This indicates that banks are involved in large loans per client while MFIs dealt with lower per capita loans suggesting MFI's deeper outreach to the poor. Thus, governments and donors have committed to support MFIs and thereby promote financial inclusion. Financial inclusion and microfinance in particular, has been a policy priority among governments in Africa. A Conference of African Ministers of Economy and Finance (CAMEF) in December 2009 recommended a minimum set of policies meant to advance MFI services amid African Union member countries (Microfinance Institutions Exchange, 2015).

In Ethiopia, the poverty reduction strategy is becoming the operational framework to translate the global Millennium Development Goals (MDGs) targets in to national action (UNDP, 2005). Formal credit and savings for the poor are not recent inventions. For decades, some customers neglected by commercial banks have been served by credit cooperatives and development finance institutions (CGAP, 2000). The formal microfinance industry began in Ethiopia in 1996 with the government's the Licensing and Supervision of Microfinance Institution Proclamation designed to encourage Microfinance Institutions (MFIs) to extend credit to both the rural and urban poor of the country. The microfinance institutions in Ethiopia aim at poverty alleviation by targeting specific groups particularly to poor. Since then, 35 MFIs have registered with the National Bank of Ethiopia and

operate under the auspices of Proclamation 40/1996 (National Bank of Ethiopia, 2017). These MFIs mobilized deposits to the tune of Birr 1.9 billion and advanced loans amounting to Birr 4.6 billion by the end of the review period (Ibid).

Generally, to meet the objectives of poverty alleviation, MFIs ought to be viable and sustainable in the provision of services. This means they must provide quality and flexible financial services that target the poor, culturally fit, subsidy free and must be profitable in all respect. Besides, there is a need for good governance of the MFIs which consists of different mix of expertise of boards, innovative and committed management and staffs that are capable to evaluate and working towards the achievement of superior efficiency and eventually leads their organizations to sustainability. Furthermore, there must be adequate financial structures (legal, regulation and supervision) set by the government and policy makers that are focused on creating and building sound financial infrastructure that support, strengthen and ensure their sustainability. This implies that most MFIs attempt to meet the correlated financial and social goals, managing a double bottom line where good financial performance enables the achievement of social mission. Social performance is the effective interpretation of an MFI's social mission into practice. The currently available tools and techniques used to assess the social and financial performance of traditional financial institutions such as banks may not be suitable for the context of MFIs (Nietoa, 2005). Over the last few years, there has been a limited attempt to integrate the assessment of social performance into the regular management system of financial institutions (CGAP, 2007). The increasing interest in social performance tries to shed more light on how the lives of poor people are being affected by financial services (Ibid).

1.2 Statement of Problem

The sustainability of MFIs reaching 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 element of the new development strategy of Ethiopia (Wolday 2000 as cited by Alemayehu,2008). Micro finance service intervention in Ethiopia have also be considered as one of the policy instrument of the government and non-government organizations (NGOs) to enable rural and urban poor increase output and productivity, induce technology adoption, improve input and productivity, induce technology adoption, improve input supply, increase income, reduce poverty and attain food security.

While a large body of research on the financial performance of conventional financial institutions such as banks has been undertaken by researchers such as Habtamu (2013) and Rahel & Maru (2015), to begin with, rigorous empirical evidence on MFIs remains quite limited generally. On the other hand, growth in MFIs is much due to the insistence on financial sustainability. But for most practitioners and funders it is important to also reach the poor, provide quality services, and improve clients' lives. Hence, both financial and social performance is important. Many funders and financial institutions are therefore seeking after more ways to measure social performance in addition to measure financial performance (CGAP, 2007). The area of appraising social performance is relatively new, hence, there is a call for undertaking studies assessing the social performance state of microfinance institutions (Simonsen, 2016).

Since MFIs has been a tool that has enhanced accessibility to basic financial services such as savings, loans, money transfer to small entrepreneurs, there are numerous quantitative and mixed studies carried in relation to the financial performance of MFIs in Ethiopia (such as Abebaw, 2014; Belayneh, 2011; Habtamu, 2012; Rahel,2011; Gemechu, 2013; Yonas, 2015; Melkamu, 2016;

Sima, 2013; Alemayehu, 2008; and Gudata, 2015) and elsewhere (Njogu, 2011; Makokha, 2016; Waithaka,2013; Hermes and Huden,2018; and Simonsen,2016). These studies tried to explain the financial performance of MFIs in terms of known limited variables adapted from the conventional banking industry. Indeed, in contrast to the above studies, few researchers have attempted to evaluate the social performance of MFIs. For instance, Maitrot (2018) assessed the role of staff and procedures in enhancing the social mission of MFIs in rural Bangladesh, while Balya etal (2012) qualitatively explored the socio-economic effects of micro-credit among people with HIV in Uganda. Similarly, Getaneh and Garber (2007) tried to see whether the poor were positively impacted by one MFI operating in Ethiopia, and Befekadu (2007) quantitatively studied 3 MFIs performance from the angles of outreach and financial sustainability. Unlike the above studies, this study is intended to identifying multiple factors affecting the financial performance of Ethiopian MFIs along with appraising their social impact thoroughly based on mixed methodology. It also addresses a call by prior studies such as Njogu (2011) for undertaking comprehensive studies on MFIs within the East African and the Sub Saharan Africa region where MFIs activities seem to be new but dominant. In a nutshell, although the current study shares some theoretical and conceptual issues with the above studies, it differs in its methodology, depth of industry assessment, length of panel period, country of focus and variable selection.

1.3. Objectives of the Study

General Objective

The main objective of this study was to analyze the overall performance determinants of Micro Finance Institutions in Ethiopia

Specific Objectives

1) To determine the level of performance among few selected Ethiopian MFIs

2) To assess and analyze the range of outreach and Average outstanding balance among few selected Ethiopian MFIs
3) To evaluate the range of Cost per borrower and Number of offices among few selected Ethiopian MFIs
4) To analyze the magnitude of Operational self-sufficiency (OSS) and Percent of women borrowers among few selected Ethiopian MFIs
5) To analyze the range of Portfolio at risk after 90 days and Write-off ratio is measurements among few selected Ethiopian MFIs
6) To assesses the extent of social performance of few selected Ethiopian MFIs
7) To suggest ways of enhancing the overall performance of MFIs

1.4 Research Questions

1) What is the level of performance among the studied MFIs?
2) What is the magnitude of outreach and average outstanding balance among the studied MFIs?
3) What is the range of Cost per borrower and Number of offices among the studied MFIs?
4) What is the magnitude of Operational self-sufficiency (OSS) and Percent of women borrowers among the studied MFIs?
5) What is the magnitude of Portfolio at risk after 90 days and Write-off ratio is measurements among the studied MFIs?
6) How are the MFIs performing socially?
7) How can the overall performance of Ethiopian MFIs be improved?

1.5 Significance of the Study

The findings of the study will also be of benefits to donors, managers and others interested in the MFIs study for it will show the level of financial performance of the MFIs operating in the Vision Fund Micro Finance Institution SC and also in the country have reached. This in turn helps them knowing factors affecting financial performance and thereby takes appropriate actions to increase financial performance of MFIs and the study will also initiate other MFIs service providers to give due attention on the management of identified variables. It is hoped that the outcome of this study will also provide an insight of the MFIs industry to other researchers. Apart from pinpointing the challenges encountered, the findings of this study will be salient for a number of stakeholders involved in the micro finance industry. First, it is known that government plays a vital role in helping MFIs via ensuring creating good legal framework, adequate information, and supportive regulations. The findings of this study will be significant to the government in crafting suitable policies that promote the growth and development of the MFI sector. The outcomes of this study will also be of paramount importance to donors/investors/shareholders in that it is intended to give sound suggestion regarding the outreach, self-sustainability of their operation based on profitability, efficiency and portfolio quality. As this study will bring in new knowledge in terms of determinants of MFIs' financial and social performance in Ethiopia, it has an academic contribution. In this regard, it is hoped that the outcomes of this study will also provide an insight of the MFIs industry to other researchers.

1.6 Scope and Limitation of the Study

Currently, there are 35 MFIs licensed and operating in Ethiopia, out of which only 3 are included in this research. Since the 2018 annual performance reports are not yet published, this study was confined only to know the key determinants of financial performance of selected Ethiopian MFIs and evaluate their social performance by analyzing the financial statements start from 2008 to 2017 fiscal year. Even though the inclusion of beneficiary views is boldly recommended in those studies aimed at assessing the socio-financial impacts of MFIs, this research is based on the perspectives of relevant MFI managers and other staff.

1.7 Organization of the Study

This study has five chapters. The first chapter introduces the study. The second chapter presents a review of related literatures. The third chapter describes the research design and methodology. The fourth chapter is data analysis and discussion. The last chapter, chapter five, is dedicated to present the conclusion and recommendations drawn from findings of the data analysis and discussion.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1. History of Microfinance

The ideas and aspirations towards microfinance are not new. Small, informal savings and credit groups have worked for centuries across the world, from Ghana to Mexico to India and beyond (Helms, 2006). In Europe, as early as the 15th century, the Catholic Church founded pawn shops as an alternative to usurious moneylenders. These pawn shops spread throughout the urban areas in Europe throughout the 15th century. Formal credit and savings institutions for the poor have also been around for generations, offering financial services for customers who were traditionally neglected by commercial banks.

The Irish Loan Fund system, started in the early 1700s, is an early (and long-lived) example. By the 1840s, this system had about 300 funds throughout Ireland (Helms, 2006). On the other hand, in the early 1800s, a financial organization that was credit association to serve predominantly farmers in rural areas based on cooperative principles was founded by Friedrich Wilhelm Raiffeisen in Germany and expanded rapidly within Germany and later since it was successful also to the rest of Europe, North America and developing countries beyond.

Ledgerwood (1999) described the focus of these cooperative financial institutions as savings mobilization in rural areas that attempt to teach poor farmers how to save money and utilize it. In the early 1900s the concept of Raiffeisen began to appear with adaptations in parts of rural Latin America (Helms, 2006). Another milestone in the history of microfinance was the opening of the Indonesian People’s Credit Bank in 1895 that became the largest microfinance system in Indonesia (Helms, 2006).

In Bangladesh Professor Muhammad Yunus who was the Nobel Prize winner in 2006, disbursed first loans from his own pocket to a group of rural women in Jobra in 1976 and successfully developed the concept of microfinance with his Grameen Bank throughout the country and later the whole world (Ledgerwood, 1999). The Grameen Bank, which is now serves more than 2.4 million clients (94 % of them women) and is a model for many countries (Ledgerwood, 1999). Other examples of early pioneers besides Grameen Bank are ACCION International in Latin America, Self-employed Women's. Association Bank in India and many more (Helms,2006). Beginning in the mid-1980s, the subsidized, targeted credit model supported by many donors was the object of steady criticism, because most programs accumulated large loan losses and required frequent recapitalization to continue operating.

It became more and more evident that market-based solutions were required. This led to a new approach that considered microfinance as an integral part of the overall financial system. Emphasis shifted from the rapid disbursement of subsidized loans to target populations toward the building up of local, sustainable institutions to serve the poor. In the early 1990s the term "microcredit" was replaced by "microfinance" which included not only credits but also other financial services for poor people (Elia, 2006). The introduction of the term microfinance followed the success of many microcredit programmes around the world and in 1997, during the first Microcredit Summit, 2,900 delegates from 137 countries representing around 1,500 organizations gathered in Washington, D.C. During that occasion, the birth of the global industry of microfinance was officially recognized. Since then the focus started to change and move from the predominant Welfarist idea, where only the provision of credit was considered to be important, to the need of becoming financially sustainable through the provision of a complete range of financial products and to reach more people.

The term “microfinance institutions” is generally used to refer to those financial institutions that are characterized by their commitment to assisting typically poor households and small enterprises in gaining access to financial service. This commitment may replace or supplement other private or public objectives, such as the maximization of shareholder value, the direction of investment into priority sectors, or the mobilization of savings to finance government operations. In common usage, MFIs are distinguished from purely commercial, small-scale, possibly informal financial institutions dealing with the poor (for example, village moneylenders, pawnshops, and informal transfer systems) and from large, perhaps government- sponsored schemes that may hold numerous small accounts more or less as a byproduct of their main business (for example, national savings schemes or post office savings banks) (Hardy, et al, 2002).

Similarly, Microfinance Institutions also refer to those business that receives money by way of deposits and interest which is lent to others or used to finance the business in forms of loan or facilities to micro or small enterprises and low income households, deposit taking and also non-deposit taking (Microfinance Institutions Act, 2006). Microfinance refers to small-scale financial services-primarily credit, savings and insurance. It offers poor people access to basic financial services, such as loans, savings, money transfer services, and micro insurance. Savings services allow savers to store excess liquidity for future use and to obtain returns on their investments. Credit services enable the use of anticipated income for current investment or consumption. Over all, microfinance services can help low-income people reduce risk, improve management, raise productivity, obtain higher returns on investments, increase their incomes, and improve the quality of their lives and those of dependents (Robinson, 1987). According to World Bank; Microfinance Institution refers to those Institutions that engage in relatively small financial transactions that use

various methodologies in order to serve low income households, micro enterprises, small scale farmers and also those who lack access to traditional banking services (CBS, 1999).

2.2. History of Microfinance in Ethiopia

Initially, micro-credit started as a government and non-government organizations motivated plan. Following the 1984/85 severe drought and famine, many NGOs started to offer micro credit along with their relief activities although this was on a limited scale and not in a sustained manner (Alemayehu, 2008) although the development of deposit-taking MFIs started only in 1996, the industry has shown outstanding growth. Since 1996, NBE has registered 35 MFIs to deliver financial services to the poor. As of 2008, these MFIs had an active loan portfolio of about ETB 4.5 billion delivered to 2.3 million active borrowers and 3 million total active clients.

They also mobilized savings of about ETB 1.9 billion (USD 144 million). The average size of loans in 2006 was about USD 170, which indicates that MFIs target the active poor and also do a significant amount of their business (54 percent) with women. Despite their strong growth, MFIs provide less than seven percent of the total national loan portfolio, again with government-owned MFIs playing the major role (Wolday et al, 2010).

2.3 Perspectives in Performance Measures of MFIs

Performance is derived from the word 'peourmen" which means to do, to carry out or to render. It refers the act of performing: execution, accomplishment of a given task measured against preset standards of accuracy, completeness, cost and speed. In other words, it refers to the degree to which an achievement is being of has been accomplished in words of Frich Kohlar. The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past of projected cost efficiency management responsibility or accountability of the like. Thus, not just the presentation, but the quality of results achieved refers to

the performance is used to indicate firms success, condition and compliance (Rahel and Maru, 2015).

Performance concept relating to MFIs is a vital and crucial issue for many reasons such as: to ensure donors or / investors effective and efficient utilization of billions of dollars injected in MF programs also help regulators in controlling and monitoring the MFIs. Helms (2006) stated that ineffective MFIs represent a main constraint on the development of the microfinance industry. Therefore Performance measurement is a tool for managing MFIs and is a requirement for sustainability. Assessing performance of an MFI is about examining its development towards accomplishing goals. However, the literature did not show that there is a generally accepted instrument or definition relating to the meaning of the performance of the MFIs. MFIs are unique financial institutions of both social and nonprofit nature whose performance has been conventionally assessed by means of financial performance measurement ratios. Financial performance refers to the act of the performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the result of a firm's policies and operations in monetary terms. It is used to measure firms overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. And the most common measurement of financial performance is Return on Asset (ROA) shows how well a company controls its costs and utilizes its resources, Return on Equity (ROE) also known as Return on Investment (ROI) is the best measure of the return, since it is the product of the operating performance of asset turnover, and debt equity management of the firm and NIM is a measure of the difference between the interest income generated by MFIs and the amount of interest

paid out to their lenders (for example, deposits), relative to the amount of their interest earning assets (Loans and Advances) (Rahel and Maru, 2015).

On the other hand, an emerging perspective on which the MFI performance is to be measured has created two contrasting but having the same goals school of thought about the MFI industry: The Welfarist and Institutionalsit approach. According to the Institutionalsit school of thought financial deepening is the main aim of microfinance. That is, the setting up of a separate system of sustainable financial intermediation for the poor who are either neglected or are underserved by the formal financial system. The activists of this school of thought give emphasis to more on the achievement of financial self-sufficiency, breadth of outreach (numbers of clients), depth of outreach (levels of poverty reached) and positive client impact. The interest of the approach is that the institutions abstain from all kinds of subsidies as they insist on financial self-sufficiency (Nelson, 2011). The Institutionalsits focus and believe that in order to effectively fight the problem of poverty, it is necessary to build a microfinance industry as a system in which able to reach a large number of people. In order to reach a large number of people a huge amount of financial resources should be contributed from MFIs them-self instead of donors provide is necessary.

The Institutionalsit start from the basic and obvious assumption that donors cannot subsidize enough MFIs to let them provide financial services to all of the potential microfinance clients. They also believe that the only way to overcome this constraint is to attract private sources of capital and this in turn requires MFIs to be sustainable and profitable (Elia, M. 2006). According to this point sustainable financial institutions that provide financial services to the poor are necessary if the main goal is a substantial poverty reduction. The emphasis not on depth of outreach (level of poverty of clients) rather must be put on breadth of outreach (number of clients reached). If the system is not able to increase the number of clients reached, it would fail the target of poverty reduction.

Furthermore, the Welfarist believe and focus that if the approach of building sustainable MFIs is used the poorest will also benefit from it, while the other way around of targeting the poorest with highly subsidized programs will have a low overall impact due to the limited and unstable donor funding. The Welfarist and Institutionalsit position has clearly obtained success within the microfinance community by determining the Outreach, Average outstanding balance / GNI per capital, Cost per borrower, Number of offices, Operational self-sufficiency (OSS), Percent of women borrowers, Portfolio at risk after 90 days and Write-off ratio measurements (Elia, M. 2006).

2.4 Depth of Outreach

Several social performance (outreach) indicators exist in the literature. Schreiner (2002) summarized them into Six Aspects: Breadth of Outreach also called scale of outreach (number of clients served regardless of per capita loan amounts); Scope of Outreach (types of financial services available); Length of Outreach' (persistence of microfinance service supply); Worth of Outreach (customer satisfaction or customer loyalty); Cost to Clients (sum of price and transaction costs) ; and Depth of Outreach also called Quality of Outreach (the extent particular target groups are affected such as the poor and women).

Depth of outreach in a social welfare function is the relative importance of the client in the total societal welfare. If society prioritizes improvement of welfare of the poor over the better off, then reduction of poverty would improve societal welfare (Quayes, 2012). Direct measurement of depth of outreach is difficult and hence indirect proxies are often used. The proxies could be the extent the service reached to disadvantaged groups such as women, rural communities, uneducated people, ethnic minorities and so on. The MFIs financial performance can also give clue to their social performance. Woller (2006) argued that poorer clients are less able to absorb larger loans.

Either size of average outstanding loan per borrower per Gross National Income (GNI) (used for instance by Wagenaar, 2012; Quayes, 2012) or adjusted loan size (used for instance by Armendaritz & Szafarz, 2010) are common depth of outreach indicators. Lower values imply deeper outreach with a presupposition that poor clients take small-sized loans.

Average outstanding loan balance per borrower may be increased for three reasons, as argued by Armendaritz & Szafarz (2010). (i) MFIs usually give small loan to new clients and gradually increase the amount as clients prove themselves creditworthy and their income levels increases (progressive lending). (ii) MFIs could lend to wealthier clients to subsidize loans to poorer clients (cross subsidization). (iii) MFI could drift away from lending to the poor for profit (mission drift). Although Armendaritz & Szafarz questioned using average loan size per borrower per GNI as proxy for poverty level of clients under progressive lending and/or cross subsidization, under certain assumptions it can qualify a better proxy. A client who started poor can at some point is wealthy enough to access commercial bank loans, thus, sticking to such groups should instead be considered as a mission drift than as a progressive lending.

MFI with social responsibility should relocate loans from the previously poor and the now wealthier clients to the starter poor. It is under this assumption that average loan size per loan portfolio would still qualify a better proxy for depth of outreach. Cross-subsidization, if it does exist, will manifest itself on scale of outreach than on depth of outreach. The increased average outstanding loan balance to the cross-subsidizers will be equated by small loans extended to newer low-income clients, which would make depth of outreach remain unchanged. Thus, cross subsidization is less of a concern in undermining the quality of the depth proxy. Yet, I concede that meaningful analyses of poverty outreach would be possible by assessing direct poverty indicators that allow a broader and deeper sight of poverty impact, such undertakings often require longer time

and huge financial resources. Hence, average loan size per borrower per GNI is used as proxy for depth of outreach in this study.

Outreach RATIO: Value of Loans Written Off / Period Average Gross Portfolio

Indicators such as percent of women from the total borrowers are also combined with the average loan size proxy to complement measurement of depth, following Kar (2010). Women represent some of the poorest people whose exclusion from the formal financial services is apparent and the case is even worse in developing countries i.e. more women borrowers could imply poorer clients as women often are economically disadvantaged. Thus, proportion of women from the total loan clients can be another proxy for depth of outreach.

Hermes et al. (2011) cited in Millson (2013) argued that lower average loan balance and higher share of female borrowers lead to loss of efficiency. Women are better credit risk, but they take small loans that lead to efficiency loss (D'Espallier, 2011 cited in Millson (2013). Thus, in this paper, two depths of outreach indicators are used- average outstanding balance per client per GNI and proportion of women from the total loan clients.

2.5 Portfolio at Risk

As the name suggests, this indicator gives a hint of the portion of an MFI's portfolio that may be at risk because payment is overdue. A decreasing trend for this indicator is a positive indication. Furthermore, a decreasing trend for this indicator may mean that MFIs have been able to have a positive effect on clients and hence repayment of loans is prompt. Thus, it could be a good indicator of social performance. Furthermore, portfolio at risk is a more conservative measure of the institutional risk than repayment rate or arrears because both the numerator and the denominator

include the outstanding balance it measures the complete risk and not only the immediate threat (Armendáriz etal, 2010).

This ratio is the most widely accepted measure of portfolio quality. It shows the portion of the portfolio that is contaminated by arrears and therefore at risk of not being repaid. The older delinquency, the less likely that the loan will be repaid . Generally speaking, any portfolio at risk (PaR30) exceeding 10% should be cause for concern, because unlike commercial loans, most microcredits are not backed by bankable collateral. Finaciera Visión, FinAmerica, BancoSol, Caja losAndes and FIE are the exceptions to this rule, as all have lowered their risk by backing loans with commercial assets at a greater rate than the rest of the industry. In those cases, a higher Portfolio at Risk ratio does not necessarily translate into expected losses for the institution. Some institutions will only report arrears (the actual late payment amount) as opposed to the entire outstanding balance of the delinquent loan. As mentioned before, this practice will seriously underestimate portfolio risk (Armendariz et, al, 2010). Portfolio at Risk (PaR) is calculated by dividing the outstanding balance of all loans with arrears over 30 days, plus all refinanced (restructured) loans, divided by the outstanding gross portfolio as of a certain date. Since the ratio is often used to measure loans affected by arrears of more than 60, 90, 120 and 180 days, the number of days must be clearly stated (Wagenaar, 2012).

Not all MFIs are able to separate their restructured loans from their non-restructured loans. Consequently, if restructured loans do not appear to be material (less than 1%), then the total portfolio affected by arrears greater than 30 days can be accepted as a proxy of the portfolio at risk. Even if restructuring appears to be significant (but cannot be precisely determined) the portfolio at risk ratio can still be presented, but should then specify that it does not include restructured loans. Simply ignoring restructured loans would underestimate risk significantly.

(Outstanding Balance = Arrears over 30 days + Total Gross Outstanding Refinanced (restructured) Portfolio) / Total Outstanding Gross Portfolio

Another crucial aspect in assessing portfolio risk is related to the practice of restructuring and refinancing loans. The Colombian MFI FinAmérica, formerly Finansol, exemplifies the danger of these practices. In 1995, Finansol nearly tripled its portfolio by concentrating all its efforts on new loans. Arrears shot up and Finansol lost control of its portfolio. For a time, Finansol was able to cover up rising arrears by restructuring delinquent loans. Eventually, however, the restructured loans fell back into arrears; by early 1996, Finansol was on the brink of bankruptcy. As the example of Finansol illustrates, restructured loans should be analyzed with care (Schreiner, 2002).

Loan repayment frequency is yet another relevant factor in assessing portfolio risk. Generally speaking, greater loan repayment frequency enhances the seriousness of the portfolio at risk figure. If repayments are weekly, a loan that is more than 30 days overdue will have missed at least three payments, which is certainly more serious than if only one monthly payment is late. At the other extreme, one has to watch out for loans with one balloon payment at the end of the loan period, as is the case in agricultural lending when repayments are tied to the crop cycle. Where this is the case, conventional measures of PaR (30, 60, 90) are meaningless (Wagenaar, 2012).

Portfolio at risk is a useful measure, but it does not tell the whole story. Like all performance measures, portfolio at risk can be manipulated. The most common form of doing this is to write off delinquent loans. Portfolio at risk must therefore always be analyzed together with the fourth measure of portfolio quality, the write off ratio. Also, portfolio's representing very different risk profiles can have the same portfolio at risk value. For example, while the portfolio at risk measure may be the same, a loan portfolio with a large concentration of seriously delinquent loans (loans

affected by arrears of more than 90 or 180 days) will be much riskier than a delinquent portfolio where arrears remain in the range between 30 and 60 days.

Portfolio at risk has traditionally been far lower in MFIs than in the commercial banking sector. The leading MFIs show portfolios at risk of 1-6%, with few exceeding 10%. In 2002, the average of the MicroRate 32 was 5.8% and 13 MFIs had Portfolio at Risk of less than 3%. The improvement in portfolio quality during 2002 has been remarkable and it seems to suggest that the worst effects of the economic shocks of 1999-2001 have been overcome (Schreiner, 2002).

FinAmérica, with its exceptionally high portfolio at risk, illustrates the risk of "mission drift." In 1998, FinAmérica, a Colombian MFI, began to drive up average loan size to reduce its operating expenses. Much of its new lending was for small business loans, which were covered by credit guarantees issued by business development institutions. These small business loans have proven to be exceptionally risky and FinAmérica reversed its policy in 1999 (Wagenaar, 2012).

A similar development can be seen among MFIs in Bolivia, where increasing loan sizes have been accompanied by increasing loan delinquency. Persistent recession has also played a role in Bolivia, but the close link between increasing average loan size and deteriorating portfolio quality is nonetheless remarkable. The very high portfolio at risk of Vision in Paraguay reflects that country's dire economic situation in the wake of the Argentine economic crisis.

2.6 Average outstanding balance / GNI per capital

Average outstanding balance/GNI per capital indicates to a reasonable extent the loan sizes MFIs give to borrowers. A low ratio shows that the MFI gave small loans. On the other hand, a high ratio means the MFI gave out loans that were too big.

Average outstanding balance / GNI per capita = extent the loan sizes MFIs / loan give to borrowers

A low ratio for average outstanding balance / GNI per capita is expected to be better-off than a high ratio hence in measuring performance. The biggest value of rating (100%) is assigned to the lowest ratio whereas the smallest value (25%) of rating is assigned to the highest ratio (Quayes, 2012). This is done by a normalization process.

2.7 Cost per borrower

The cost per borrower given by an MFI is primarily determined when the adjusted operating expense of the MFI is divided by the MFI's adjusted average number of active borrowers. This indicator is seen by many as one which exposes an MFI's efficiency.

Considering this output, it is evident that a higher ratio for cost per loan for an MFI indicates that the loan given by that MFI is relatively expensive and hence clients technically may be under exploitation (Kar, 2010).

COSTS OF FUNDS RATIO = Interest and Fee Expenses / Period Average Funding Liabilities

Thus, a high ratio reflects inefficiency on the part of the MFI as well as the MFIs inability to perform socially since loans given out are expensive. Taking into account this understanding, this paper assigns a ratings mark of 100 to the MFI with the lowest cost per borrower ratio and a mark of 25 to the MFI with the highest cost per loan ratio.

2.8 Number of offices

This paper regards number of offices as an indicator for outreach. The underlying reason is based on the fact that the more the offices an MFI has, the more clients feel they can easily access services provided by the MFI (Armendariz & Szafarz, 2011)..

2.9 Operational self-sufficiency (OSS)

The operational self-sufficiency ratio shows the ability of an MFI to cover its costs of operation using internally generated income. This ratio primarily is expected to be an efficiency ratio thus helping expose the efficiency of an MFI, however, its involvement in this paper as one of the indicators to measure performance is based on the argument that the efficiency of the MFI is relevant in performing socially as this could lead to less costly services to clients (Wagenaar, 2012).

Operational self-sufficiency (OSS)= Number of Borrowers (excluding Consumer and Pawn Loans) / Total Staff

2.10 Percent of women borrowers

Percent of women borrowers is a relative ratio of active women borrowers to the total number of borrowers. Conceptually, this ratio is seen to be a very significant indicator of outreach considering the vulnerable nature of women in most communities and the fact that they are usually undermined especially in rural areas. This awareness creates the understanding that in a community where more women have been reached, that community has been positively impacted socially since it is expected that women there would now be in some form of meaningful business (Armendariz & Szafarz, 2011).

Percent of women borrowers= ratio of active women borrowers/ the total number of borrowers

Thus, an increasing trend of percent of women borrowers can be seen as a positive indicator for social performance.

2.11 Write-off ratio

Lastly, the write-off ratio is a relevant indicator that can help understand the level of support MFIs give to clients so they don't default. In this regard, it is sufficient to say that a low ratio indicates that MFIs have been supportive enough hence clients did not default. This can be a good measure of performance. Quite many attempts have been observed to investigate the return vs. risk but no one tried to observe the co movements among the risks/ write offs ratios of different countries or region (Armendariz & Szafarz, 2011).

WRITE-OFF RATIO : Value of Loans Written Off / Period Average Gross Portfolio

2.12 Return on Assets

Return on assets is an overall measure of profitability that reflects both the profit margin and the efficiency of the institution. Simply put, it measures how well the institution uses all its assets. It is a fairly straight forward measure. However, as in the case of ROE, a correct assessment of ROA depends on the analysis of the components that determine net income, primarily portfolio yield, cost of funds and operational efficiency. In what seems like a paradox, NGOs generally achieve a higher Return on Assets than licensed and supervised MFIs. This state of affairs is explained by the fact that microfinance NGOs, with low Debt/Equity Ratios and limited possibilities to fund themselves in financial and capital markets, need to rely heavily on retained earnings to fund future growth.

Return on Assets (RoA) = Net Income / Average Assets

Return on Assets (RoA) is calculated by dividing net income (after taxes and excluding any grants or donations) by average assets. This outstanding performance is a result of high portfolio yields and excellent portfolio quality.

2.13 Social Performance of MFIs

The Social Performance Task Force has a consensus about the following definition for social performance: Social Performance is the effective translation of an institution's social goals into practice in line with accepted social values; these include sustainably serving increasing numbers of poor and excluded people, improving the quality and appropriateness of financial services, improving the economic and social conditions of clients, and ensuring social responsibility to clients, employees and the community they serve (CGAP, 2007, p. 3).

Social performance is in the microfinance industry commonly defined as the ability an MFI has to effectively translate the institutions social goals into practice. It means that an MFI should not do any harm, and that it is proactive in fulfilling its mission. Do no harm means that the client should not be worse off after the intervention of a MFI due to before. This includes avoiding client indebtedness, not adding unnecessary administration burdens on the clients, and stop transferring risk to the clients. The social goals are outlined in the organization's mission and vision (Leonard, Linder, Faris, Lal & Meggs, 2009). Social performance indicators help MFIs to specify data to collect so they over time can assess and track how well they are achieving its mission (SPTF, 2012). Social performance for an MFI involves achieving their social mission, it also involves an MFI's continuing commitment to behave ethically and contribute to the economic development while improving the quality of life of their clients, the workforce and their families as well as the local community and society at large. In 2005, an NGO called Knowledge and Tools for Ethical Finance (CERISE) and the Social Performance Task Force created, with the support of their membership,

the SPI tool, aligned with the Universal Standards for Social Performance Management and the Smart Campaign Client Protection Principles. The current study will use the CERISE's Social Performance Indicators tool which give a firm's social performance index using four dimensions, targeting and outreach, appropriateness of products and services, benefits to clients and social responsibility. This measure is more comprehensive as it includes all other separate measures used in prior studies in generating the score (CERISE, 2005).

2.14 Social Performance Management (SPM)

Social performance management is the systematic assessment of performance relative to social objectives and use of this information to improve practice. It is about the achievement of MFIs' social goals and being socially responsible (Campion, Linder, & Knotts, 2008). The Social Performance Indicators tool (SPI tool) is an open access tool that assesses the principles, actions and corrective measures implemented by an MFI to achieve its social objectives. The indicators are used to score the MFI's social performance based on targeting and outreach, products and services, benefits to clients and social responsibility (Bedecarrats, Lapenu, & Tchala, 2010).

2.15 Importance of Social Performance Today

More than ever before, there is a broad agreement that social performance is important to help MFIs in achieving their social mission (CGAP, 2013a). Social performance of investments has become a topical issue in discussions. Social objectives are intentionally pursued and honored (Lapenu et al., 2008). Investors are agreeing that there is a need for action. Microfinance investors are now openly discussing responsible investments; this includes balancing returns and how to reduce the risks of market saturation and over-indebtedness. The heated debates and investors efforts are signaling maturity and investors` wish to move beyond the crises to concrete actions, which will make the sector more responsible (CGAP,2013b).

There have been some reservations about the need of social performance measures. If there really is a need for a new set of reporting standards and if it is even possible to standardize measures for social performance. Opponents believe that the high demand among the poor for services and that they are relative price insensitive, are enough sufficient proof that microfinance services are socially useful. Thus, the additional assessments will therefore be unnecessary. However, a high demand does not automatically indicate that there is an increase in people`s conditions. One reason why people come back could be due to spiraling indebtedness, meaning that they borrow money to pay back other debts (CGAP, 2007).

There are new challenges in the microfinance sector. A growing microfinance industry and new partnerships that are emerging are resulting in an increasing competition and a financial pressure. This evolving context increases the exposure to risks, and as a consequence, there is no guarantee for the double bottom line of microfinance anymore. There is also a real risk of mission drift (Leonard et al., 2009). In the future, one can expect that there is a decrease in the resources for development assistance from public donors. Yet, there will be a growing interest for microfinance for the private social investors. To report if MFIs have managed the objectives in the double bottom line, it would then be important for them to have similar financial and social objectives. It could also be possible to improve the understanding of possible trade-off between the economic and social returns on investment (Zeller, Lapenu & Greeley, 2003).

There has, for the last decade, been emphasis on the financial performance. However, advocates of social performance have argued that it is important with social indicators to keep MFIs focused on their clients and is a key building block for the MFI as an institution. Social indicators will also help MFIs to assess their social results internally and to report to their external stakeholders, especially

to donors and investors. If an MFI know how it is performing on its social bottom line, it can help to guide the MFI towards its social mission (Coleman & Rogers, 2009).

2.16 Challenges in Financial performance and growth of MFIs

Volscheck (2002) citing Masinde (2001) highlights problems associated with the microfinance sector at four levels. The strategic level focuses on issues of outreach, the education level of staff and management information systems. Level two relates to operational issues such as the profitability and sustainability aspects, relative to the high costs. The third level focuses on the aspect of marketing with regard to the diversity of products offered by the MFI. Finally, the fourth level deals with the capitalization issue with respect to access to capital.

Strategic Issues

Staff productivity and efficiency are important aspects in microfinance service delivery. Ledgerwood (1999) argues that the main responsibility for effective outreach and loan repayments remains with the loan officer. Provision of timely management information is valuable in effective delinquency management. In addition, Mukama (2005) stresses that the education level of staff and management is of utmost importance in that it puts better into perspective the necessary marketing conditions that translate into profitability, financial sustainability, enhanced quality loan book, improved quality service to attract customers, minimal fraud, savings mobilisation, regulatory compliance and shareholders accountability. Furthermore, lack of knowledge can result in unsuccessful implementation of the microfinance programmes. Ledgerwood (1999) alludes to the fact that implementation challenges can occur especially in replication of models that are successful elsewhere, due to differences in the social context and lack of local adaptation.

Operational Issues

Adjasi et al., (2006), cited a study by Adams, et al. (1984) that interest rates and savings mobilisation are among the problems that causes the lack of sustainability and eventual failure of such financial schemes. Mukama, et al. (2005) similarly cite the cost component of assessing and processing of loan applications as being the same regardless of the size of the loan. The small loan amounts lead to high operational costs especially in view of the fact that micro-enterprises require relatively smaller loans than larger enterprises to start or expand their business.

While it might be argued that the aim of microfinance is to provide financial services to the unserved people and have positive impact on society, the argument for the high interest rate charged is that, in order for MFIs to be sustainable, they ought to apply interest rates that will result in a breakeven point to enhance the ability of the MFIs to cover its operational and administration costs. Furthermore, sustainability as a consequence of high interest promotes the probability of the MFIs to achieve greater outreach. Some clients are prepared to pay the high interest rates required to ensure continuous access to credit (The Microfinance Gateway, 2005).

Another cost driver of MFI operations cited is the issue of the perceived risk of lending to people without collateral and credit reference because MFIs need to consider the risk in the borrowed funds (Ruit, 2002). Ruit (2002) and Adjasi et al. (2006) identify the issue of perceived risk of lending to people without adequate collateral and credit references as challenges to the MFIs operations because of possible moral hazard and adverse selection. Moral hazard and adverse selection mainly arise from information asymmetry.

Moral hazard refers to problems of repayments and defaults whilst adverse selection relates to inability to screen out those likely to default. Moral hazard occurs because of the inability of the MFIs to ensure that clients are attempting to fully make their investment projects successful or

when the borrower tries to abscond with the money whilst adverse selection arises because MFIs are unable to easily determine the credit worthiness of the clients (Aghion and Morduch, 2005). However, to circumvent the above mentioned challenges, group lending with joint liability can be an effective mechanism to enforce repayment. Peer monitoring in group lending with joint liability reduces the moral hazard of the group member because of the joint liability (Franklin and Manfred: 2006)

Marketing Issues

Marketing for microfinance institutions is an important analytical tool to be informed about the client. It tackles questions relating to who the MFI clients are, how many clients there are, the target market, and the market share it hopes to capture (Innovations in Microfinance, 2000). A target market represents a defined market segment that contains identifiable clients who demand or represent a potential demand for microfinance services. Target markets are defined by the characteristics of the clients, such as poverty level, gender, ethnicity and religion. In selecting a target market for microfinance services, MFIs need to spell out their own objectives, understand what inspires the clients, and assess whether the target market is reachable in a financially sustainable way (The Microfinance Gateway, 2005).

Organizations that do not define their objectives, and hence their target market, or fail to design their products to meet the needs of their market, often have difficulty managing their operations and staying focused (Ledgenvood, 1999). Successful microfinance focuses on both savings and lending products because that is what the clients need. Furthermore, these programmes require savings as a precondition for borrowing (Goodwin, 1998). It is of great importance for MFIs to tailor their services in line with the needs of the clients. MFIs that engage in full intermediation achieve rapid

outreach and enhance financial returns than those specialising in credit only (World Savings Bank Institute, 2007).

Regulatory Issues

A conducive policy, legislation and regulatory environment, and institutional capacity are prerequisites to a thriving microfinance sector development. The stability of financial and other markets enables micro enterprises and consequently microfinance services to become viable (Ledgerwood, 1999). Regulatory approaches of microfinance range from self-regulation in which the industry develops its own supervisory and governance bodies to full regulation through existing laws specific to MFIs. The aspect of regulation of the microfinance sector should be observed within the broader developmental agenda that recognizes the significance of the sector in reduction of poverty and contribution to wealth creation (Moyo, 2008).

2.17 Empirical literature

The quality literatures on the Ethiopian MFIs industry financial performance are not as such available. However, the study by Alemayehu, (2008) on which we have accessed to, is worth mentioning. He studied the performance of micro finance institution in Ethiopia by taking six MFIs using simple descriptive analysis using graphs and percentage growth rates. The result shows that Most MFIs are strong performers on return on asset. In connection with liquidity, most MFIs lack strong position to effect immediate obligations. Large MFIs are more efficient and productive than small and medium ones. But small MFIs seem to reach the poorest section of the society. Finally, the trend in performance of microfinance institutions during those years of operation was encouraging.

The study by Kidane, (2007) on one of the largest MFIs in Ethiopia Amhara Credit and Saving Institution (ACSI) shows that ACSI has served more than half a million clients. Over 1.6 million loans have been disbursed worth Birr 1.5 billion. By 2005, the institution was operationally and financially self-sufficient at 119.9% and 115.3%

Respectively, AdCSI is among a few MFIs that are able to achieve the highest efficiency at the lowest cost per borrower. The operating cost was as low as five cents in 2005.AdCSI also has a high portfolio quality, as delinquency rates are around 1.9%.

Melkamu, (2016) Determinants of Operational and Financial Self-Sufficiency: he uses quantitative research approach using panel data regression as the main data analysis technique. The study was based on a six years' secondary data obtained from the mix market database for twelve selected MFI in Ethiopia. The study found that average loan balance per borrower, size of a MFI, cost per borrowers and yield on gross loan portfolio affects the operational sustainability of Ethiopian MFIs significantly. Whereas cost per borrower, number of active borrowers and yield on gross loan portfolio affect their financial sustainability. The Study also found that MFIs in Ethiopia are operationally self-sufficient while they are not financially self-sufficient.

Yonas, (2015) on his study regarding determinants of financial sustainability osf Ethiopian MFIs, using 6 years' data for 12 MFIs from AEMFI; he concluded three things. First, a high quality credit portfolio, coupled with the application of sufficiently high interest rates that allow a reasonable profit and sound management are instrumental to the financial sustainability of MFIs. Second, the percentage of women among the clientele has a weak statistically non-significant negative effect on financial sustainability of MFIs and finally, client outreach of microfinance programs and the age of MFIs have a positive but lesser impact on attainment of financial sustainability.

Sima, (2013) on his study examined internal and external factors affecting profitability of microfinance institutions in Ethiopia by including a total of thirteen microfinance institutions covering the period of 2003-2010. The researcher uses quantitative research mainly documentary analysis. The outcome of the study indicates that Age of microfinance institutions has a positive and statistically significant effect on their profitability. However, Operational efficiency and portfolio quality have a negative and statistically significant effect. However, capital adequacy, size and GDP are found to be statistically insignificant variables.

The studies conducted in the areas of microfinance institutions in Ethiopia are few in number and did not give such an emphasis on the factors considered to be determinants of financial performance of microfinance institutions in Ethiopia.

Abebaw, (2014) studied determinate of financial performance of micro finance institutions in Ethiopia by using simple descriptive analysis and employing graphs and percentage growth rates by classifying small, medium and large. The study did not say anything about factors affecting financial performance of MFIs.

The study by Yonas, (2015) and Melkamu, (2016) tried to see the determinants of performance by using proxy of financial and operational sustainability of Ethiopian MFIs. They focused only on internal factors and have not considered external factors like macroeconomic and industry and also they have not addressed specifically the idea of financial performance of MFIs.

In addition, Sima, (2017) studied determinants of profitability of Ethiopian micro finance by using Microfinance specific and macroeconomic factors from Secondary data. Therefore, the above studies use limited variables which focus in MFI-specific and macroeconomic factors only and not say anything about industry specific determinants in their study.

Since it is believed that MFIs must be profitable for their healthy operation and attainment of the long term goal which is alleviation of poverty, the study will find out the MFIs specific, macroeconomic and industry-specific factors affecting their financial performance by including primary data and fill the gap in the context of Ethiopian MFIs.

2.18 Conceptual Framework

The Welfarist and Institutionalsit positions have clearly obtained success within the microfinance community by determining the Outreach, Average outstanding balance / GNI per capita, Cost per borrower. Number of offices, Operational self-sufficiency (OSS), Percent of women borrowers, Portfolio at risk after 90 days and Write-off ratio is measurements are (Ledgerwood, 1999; Elia, 2006) and finally Return on Assets is to dimensions performance. Despite the availability of plenty of studies across different parts of the world including the ones narrated above, the determinants of financial performance have been debated for many years in the MFI literature. Indeed what makes the debate exciting is the determinants are dynamic from time to time and differ with the nature of the firm from place to place (Flamini et al.,2009). To measure the financial performance of MFIs in Ethiopia, ROA is applied as the dependent variables because the Microfinance Financial Reporting Standards recommends the use of ROA and ROE as measures of profitability rather than financial self-sufficiency (FSS) and operational self-sufficiency (OSS) (Muriu, 2011).

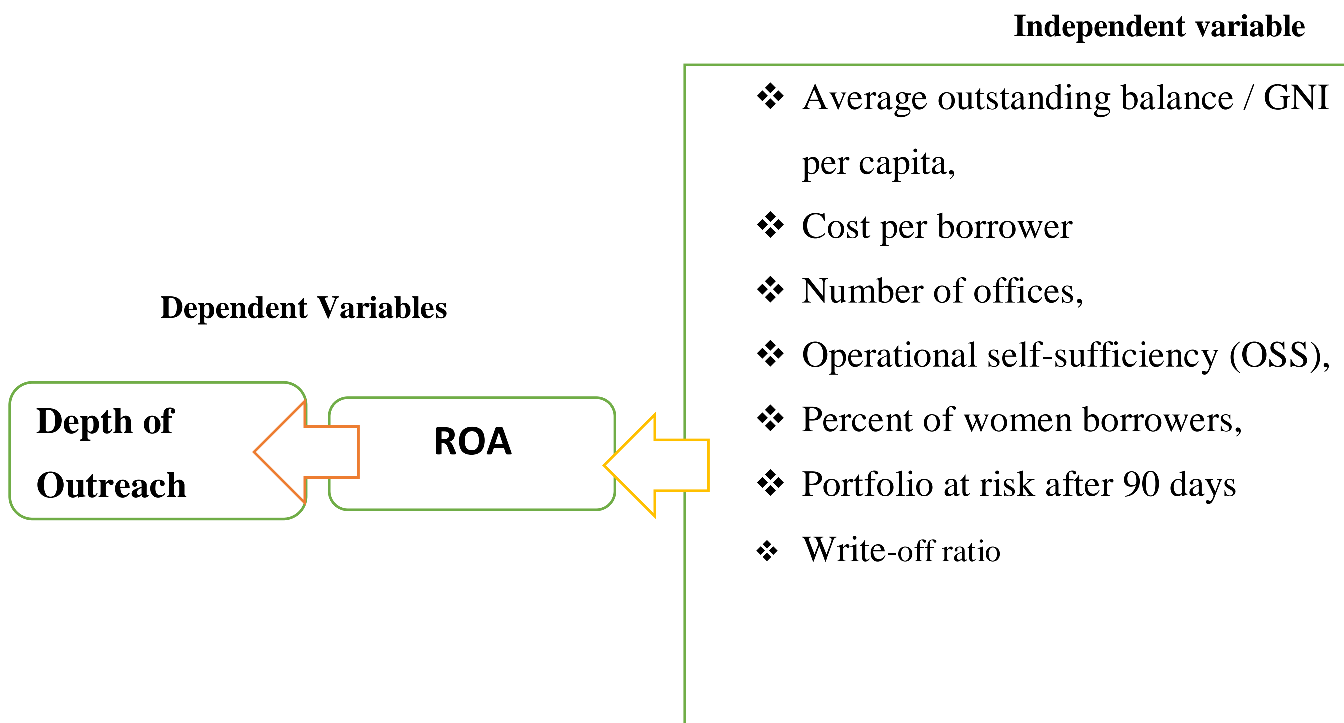


Figure 1; Conceptual frame work by author, 2018

CHAPTER THREE

3. RESEARCH METHODOLOGY

This chapter sets to explain the research design and methodology, target population, sampling technique and sample size, methods of data collection, data analysis and techniques and also operational definition and model specifications were presented.

3.1 Research Philosophy

According to Newman and Ridenour (2008), any research takes either of the existing two epistemological paradigms namely the Positivist and Interpretive. The positivist school views the researcher as independent of the study they are conducting. They view the reality as objective and measurable, human beings are assumed to be rational; research emphasizes fact and predictions to explain cause and effects (Heenetigala, 2011; Bryman & Bell, 2007). They place high priority in identifying causal linkages between and amongst variables (Amin, 2005; Cooper & Schindler, 2006). As this research aimed at establishing the causal relationship between the MFIs' performance indicator (ROA) and the independent variables described earlier, it adopted the positivist view. On the other hand, interpretive philosophy involves a naturalistic approach to the world. This means that it studies things in their natural settings, attempting to make sense of, or to interpret, phenomena in terms of the meanings people bring to them. It is based on enriched qualitative data such as detailed descriptions of situations, events, people, interactions, observed behaviors, direct quotations from people about their experiences, attitudes, beliefs, and thoughts and excerpts or entire passages from documents, correspondence, records, and case histories. Since this research is also aimed at appraising the social performance of the MFIs based on the detailed experience of their managers and employees, it is reliant on the interpretive paradigm.

3.2 Study Approach

There are three research approaches: Quantitative, Qualitative and Mixed. Quantitative approach refers to the type of research that is based on the methodological principles of positivism and adheres to the standards of a strict research design developed prior to the actual research. It is applied for quantitative measurement and hence statistical analysis is used. In other words, quantitative research tests the theoretically established relationship between variables using sample data with the intention of statistically generalizing for the population under investigation. Qualitative research employs methods of data collection and analysis that are non-quantitative, aims towards the exploration of social relations, and describes reality as experienced by the respondents (Adams etal.2007). The current study is based on Mixed approach, since it has both aspects.

3.3 Research Design

According to Kothari (2004), research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. Ghauri and Gronhaug (2005) and Bryman and Bell (2007) stated that the research design is a plan or framework for data collection and its analysis which reveals the type of research (e. g exploratory, descriptive or causal). Research design is thus a plan of how the research will be carried out.

This study adopted an explanatory and descriptive qualitative research design. Explanatory studies are studies that are aimed at establishing causal relationship between variables. The emphasis in an explanatory study is to study a situation or a problem in order to explain the relationships between variables (Bryman & Bell, 2007). On the other hand, a qualitative descriptive study is one that is undertaken with a view of offering the researcher a profile or to describe relevant aspects of the phenomena of interest from an individual, organization ,organizational, industry oriented, or other perspective (Sekaran, 2009; Bryman & Bell, 2007; Ghauri & Gronhaug, 2005). The objective of the study was to evaluate the social performance of MFIs. An explanatory study design was suitable

because the study sought to establish the relationship between the dependent and the independent variables. The qualitative descriptive design allowed for a detailed description of the social performance of MFIs in Ethiopia. The design was also in line with other similar prior studies (Asantemongu, 2014; Asimwe, 2012).

The used techniques of panel data estimation can take heterogeneity explicitly into account by allowing for individual-specific variables. By efficiently studying the repeated cross section of observations, panel data are better suited to study the dynamics of change. Equally salient, panel data can better detect and measure effects that simply cannot be observed in pure cross-section or pure time series data. By making data available for several thousand units, panel data can minimize the bias that might result if we aggregate individuals or firms into broad aggregates (Singh, 2006).

3.4. Target Population

The target population for this particular study was all the microfinance institutions currently operating in the country. According to the NBE and AEMFI, there are total 35 micro finance institutions in the country.

3.5. Sampling Technique and Sample Size

A sample of a subject is taken from the total population to make inference about the population because it is time consuming and expensive to collect data about every individual institution in the population. However, where the selected sample can reliably represent the population, the sample can still be used to make inferences about the population (Collis and Hossey, 2003 cited in Yonas, 2015). From the currently operating 35 MFIs in Ethiopia, this study has targeted Addis Credit and Saving Institution S.C (AdCSI), Awachi Saving and Credit S.C (AwCSI), and Vision Fund Micro Finance Institution S.C (VFMFI). According to Makokha (2016), issues of context are critical and must be taken in to account while analyzing factors affecting MFIs performance, so the researcher

selected the above 3 MFI belonging to different contexts in terms of funding source, goal/mission-orientation(profit vs social benefit), capital volume etc.

Apart from convenience to reach, the prime criteria for choosing among the MFIs were based on the availability and quality of data for the time period of 10 years (2008-2017). Therefore, based on the sample size and the time coverage, the sample consists of 30 observations. When the subjects used in the sample are homogeneous, according to Singh (2006), using purposive sampling technique is appropriate. Therefore, the first 3 respondents to the in-depth interview were chosen purposely. These first respondents were General Managers/Deputy Mangers of the respective MFIs. Those 3 senior-level managers in charge of leading the operations division of the selected MFIs were also made to be deliberately included in the sample, since they were in a position of having relevant and complete information in relation to the themes of the study. On addition to these, 2 experts from the NBE and AEMFIs were also interviewed, making the approached respondents totally 8 (the detailed profile of them is annexed).

3.6. Source of Data and Methods of Data Collection

The data types used in the study are both secondary and primary data. The secondary data were obtained from the Association of Ethiopian Micro Finance Institutions (AEMFI) and National Bank of Ethiopia (NBE) as well as the annual Performance Reports of the respective MFIs. Secondary data from the former two sources were consulted due to the fact that they provide standard financial performance indicators and audited financial statements from MFIs covering all regions and is reliable, comparable and publicly available. To obtain the primary information, in-depth interview guide was used to elicit information about the social impacts of MFIs from multiple dimensions. The in-depth interviews were then translated verbatim into English so that the analyses of the responses are most reflective of the respondent’s actual responses and not the interpretation of the researcher or interviewer.

3.7. Data Analysis Technique

The collected data was regressed by panel least square method and interpret with the help of descriptive statistics including standard deviation, mean, minimum, maximum and inferential statistics which is multiple regression analysis (significant test). Moreover, the Eviews 9 software has a range of advanced tool for panel analysis.

Both descriptive statistics and inferential statistics are using to analysis the significance of independent variables on the dependent variable. The researcher used content analysis to make sense of the qualitative data secured via the in-depth interviews. 10-year annual data were used. Micro financial performance determinant variables which are independent is considered by the researcher in which the researcher has investigating the independent variables as causing factors on tax noncompliance using descriptive statistics. The researcher collects the annual financial quantitative data present to measure their view about each pre provided and assumed micro finance financial performance determinates. The data analyzed by coding according to variables in the study. After completion of coding, the data classified on the basis of common characteristics and attributes. The raw data then assembled and tabulated in form of statistical tables to allow for further analysis.

As the research aimed at establishing the causal relationship between the MFIs' performance indicator (ROA) and the independent variables described earlier, multiple linear regressions was used. Different tests were carried out to ensure the goodness of the regression model. These include: (1) Normality test, which was tested using the technique of a normal P-P plot, the bell-shaped histogram and the Bera-Jarque statistic, (2) Test for Heteroscedasticity, which was tested through the visual inspection of residuals plotted against fitted value, (3) Durbin-Watson test i.e a test for assumption of autocorrelation, and (4) Multicolinearity test, which was examined using the Variance Inflation Factor (VIF).

3.8 Correlation

In statistic, correlation, (often measured as a correlation coefficient), indicates the strength and direction of a linear relationship between two random variables. In general, it refers to the departure of two variables from independence. A number of different coefficients are used for different situations as mentioned by Coakes and Steed (2007). The best known is the Person product-moment correlation coefficient, which is obtained by dividing the covariance of the two variables by the product of their standard deviations. Person's correlation reflects the degree of linear relationship between two variables. It ranges from +1 to- 1. A correlation of "+1" means that there is a perfect positive linear relationship between variables and a correlation of "-1" means that there is a perfect negative linear relationship between variables. A correlation of "0" means there is no linear relationship between two variables.

3.9. Variable definition

This section explains the variables used as dependent and independent (explanatory) variables in this study. The definitions/measurements used for these variables are described and summarized under the following table.

A. Dependent Variable

Return on Asset (ROA) measures how well the institution uses all its assets. It is also an overall measure of profitability which reflects both the profit margin and the efficiency of the institutions (AEMFI, 2013).

Return on Asset (ROA) and outreach was applied as the dependent variables because the Microfinance Financial Reporting Standards recommends the use of ROA and ROE (Return on Equity) as measures of profitability rather than financial self-sufficiency (FSS) and operational self-sufficiency (OSS) (Muriu, 2011). ROA may be biased due to off balance-sheet items; It can

however be argued that such activities may be negligible in MFIs. The ROA reflects the ability of MFI’s management to generate profits from per birr of assets and indicates how effectively the MFIs assets are managed to generate revenues. In Banks and other commercial institutions, the most common measure of profitability is return on asset (ROA) for instance (Abate, 2012), (Sima, 2013).

According to yonas, (2012) which is done in the banking sector profitability, using return on equity has its own limitation than using return on asset. Among the limitation the study points out that, timing problem (it is believed that Managers should be forward looking but ROE is precisely the opposite: Because they focused on a single period. The risk period, ROE will not tell a company or a firm about what risks a company has taken to generate it.

The Value period ROE measures the return on shareholders investment only by using Book Value of shareholder’s equity not the market value. Therefore, based on the above rationality this study was used ROA as the proxy for financial performance.

Net Adjusted Income Before Donations / Period Average Assets

B. Independent Variable

To measure the predictor variables of performance of MFIs in Ethiopia, eight measures were used as independent variables which were extracted from different studies. The variables namely, Outreach, Average outstanding balance / GNI per capita, Cost per borrower. Number of offices, Operational self-sufficiency (OSS), Percent of women borrowers, Portfolio at risk after 90 days and Write-off ratio is measurements are (Ledgerwood, 1999; Elia, 2006).

3.10. Model Specification

This section covers the operational panel fixed regression model (multiple regression models) that was used in the study. The multiple regression model used for this study to determine the determinants of the financial performance of MFIs in Ethiopia is explained as follows. The model is adopted from different studies conducted on the same area.

$ROAit += \beta1*DO\beta o_{it}+\beta2\ _{it}\ +*AOB\beta3\ _{it}\ *CB+\beta4_{it}*NO+\beta5\ *OSE_{it}+\beta6\ *PWB_{it}+\beta7\ *PR_{it}$ $+\beta8*WOR_{it}\mu it$

Where1toβ β8 are the coefficients of the vari

Bo_i; stands for the intercept term which varies across MFIs but constant over time

$DO_{it:}$ stands for depth of outreach for MFI i at time t

AOB/GPCit: stands for Average outstanding balance / GNI per capita for MFI i at time t

CBit: stands for Cost per borrower for MFI i at time t

NOit: Number of offices for MFI i at time t

OSSit: stands for Operational self-sufficiency (OSS) for MFI i at time t

PWBit: stands for Percent of women borrowers for MFI i at time t

PRit: stands for Portfolio at risk after 90 days of the country

WORit: stands for Write-off ratio for MFI i at time t

3.11. Hypothesis of the Study

In Oder to achieve the objectives of the study, a number of hypotheses were tested regarding the determinants of financial performance of VFMFIs,AdSCI and AwChi based on different empirical research and theoretical review made from MFI. The reason is that there is rear theory developed in relation to three selected MFI financial performance. There are seven hypotheses which are include:

Hypotheses 1: Average outstanding balance has a positive relationship with financial performance of AdSCI , Awachi and VFMI in Ethiopia.

Hypotheses 2: There is negative relationship between Operational efficiency andAdSCI ,Awachi and VFMI performance in Ethiopia.

Hypotheses 3: Portfolio at risk after 90 days and financial performance of MFIs in Ethiopia are inversely related.

Hypotheses 4: VFMI, Awachi and AdSCI financial performance is positive relationship with Cost per borrower.

Hypothesis 5: Number of offices is negatively related with the financial performance of MFIs in Ethiopia.

Hypothesis 6: Percent of women borrowers is positively related with the financial performance of VFMFIs, AdSCI and Awachi in Ethiopia.

Hypothesis 7: Write-off ratio and financial performance are positively related.

CHAPTER FOUR

4. DATA ANALYSIS AND INTERPRETATION

This chapter deals with the results of study which include descriptive statistics of variables, correlation results for dependent and explanatory variables, model misspecification tests (tests for the Classical Linear Regression Model assumptions), finally presentation of panel data regression analysis and ANOVA is presented for discussion of results.

4.1. Summary of Descriptive Statistics

Table 1: Summary of Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Number office	30	2.00	177.00	44.1000	47.66937
percent of women borrower%	30	15.00	59.00	26.9333	12.01704
Cost per borrower	30	20.25	58.63	36.9780	11.55211
Average outstanding balance / GNI per capita	30	100.03	1463.77	643.3863	517.55213
Portfolio at risk after 90 days%	30	3.67	18.67	9.3363	2.38495
operational self-sufficiency (OSS)	30	-57573.00	134439.92	40176.6973	47571.56795
write off during the period%	30	6.50	15.67	10.2107	2.33549
ROA	30	-.05	.07	.0294	.02474
Valid N (listwise)	30				

Source: Eview 9 output (2018)

In this section, the study present the results based on the descriptive statistics for both dependent variable, the Return On Asset (ROA), and independent variables discussed in chapter three over 10 years. Table 4.1 provides a summary of the descriptive statistics of the dependent and independent variables.

As discussed in the methodology part, the Return on Asset (ROA) indicates or measures how well the institution uses all its assets. It is also an overall measure of profitability which reflects both the profit margin and the outreach of the MFI institutions.

The above Table1 shows descriptive statistics for all variables. The financial performance of the studied Ethiopian Micro Finance institutions (VMFI, AdSCI, and AwSCI) which is measured by Return on Asset for 30 observations averagely indicates a positive value of .0294 during the study period of (2008-2017).

This shows that the MFIs included in the sample in the study period have gained on average .0294 cents in every one-birr investment they made on total asset and the profitable MFIs earned 0.14 cent of profit after tax for a single birr investment they made on total asset. On the contrary, the non-profitable MFIs lost 0.15 cents for one-birr investment made on total assets of the firm. This clearly illustrates the disparity of rates of return earned by MFIs.

Percent of women borrowers is a relative ratio of active women borrowers to the total number of borrowers. It was found that the average value of this indicator is 26.9%. Conceptually, this ratio is considered to be a very significant indicator of outreach especially considering the fact that women are vulnerable in most communities. Women are usually undermined especially in most parts of the country.

Cost per borrower given by a MFI is primarily gotten when the adjusted operating expense of the MFI is divided by the MFI's adjusted average number of active borrowers. The result 36.9%

implies that the loans provided by the MFIs are relatively expensive and hence clients technically may be under exploitation.

Regarding to the Average outstanding balance/GNI per capital, the result indicates that the loan size MFIs give to borrowers are around 643.3863 ETB. This low ratio shows that the MFI gave small loans.

Portfolio at risk after 90 days value of 9.3% gives low-slung hint to the portion of an MFI's portfolio that at risk because payment is overdue. A decreasing trend for this indicator by 4-5 % is a positive indication. Furthermore, increasing trend for this indicator may mean that MFIs have been able to have negative effect on clients and when repayment of loans is prompt.

The operational self-sufficiency ratio shows 40176.6973 ETB which is the ability of an MFI to cover its costs of operation using internally generated income remains medium. This ratio primarily is expected to be an efficiency ratio thus helping expose the efficiency of an MFI.

In relation to write off ratio, the results indicate a minimum value of 6.50 and maximum value 15.67 with an average of 10.2107. This low ratio indicates that MFIs have been supportive enough hence clients did not default. This can be a good measure of performance. Therefore, the results indicate the existence of market concentration in the market.

4.2. Tests for the Classical Linear Regression Model (CLRM) Assumptions

A. Normality Assumption

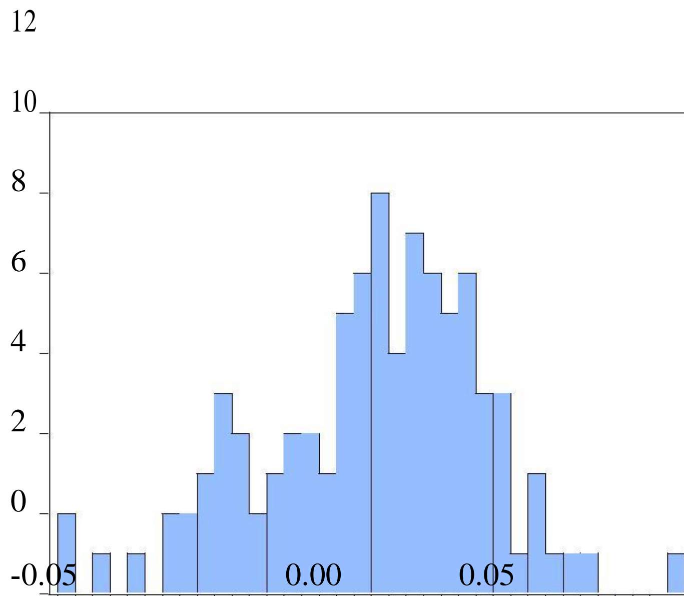
If the residuals are normally distributed, the histogram should be bell-shaped and the Bera-Jarque statistic would not be significant meaning disturbance to be normally distributed around the mean. This means that the p-value given at the bottom of the normality test screen should be bigger than 0.05 to not reject the null of normality at the 5% level (Brooks, 2008).

Ho: Normally distributed errors

Ha: Non-Normal Distribution error

Therefore, the normality tests for this study as shown in table below, the Bera-Jarque statistic has a P-value of 0.179 implies that the p-value for the Jarque-Bera test for models is greater than 0.05 which indicates that the errors are normally distributed. Based on the statistical result, the study failed to reject the null hypothesis of normality at the 5% significance level.

Figure 1: Normality Test for Residuals



Series:	Standardized Residuals
Sample:	2008- 2017
observations	30
Mean	-10.67e-18
Median	0.003725
Maximum	0.079914
Minimum	-0.077369
Std. Dev.	0.032121
Skewness	-0.319287
Kurtosis	3.093339
Jarque-Bera	3.667590
Probability	0.184275

Source: Eview 9 output (2018)

B. Homoscedasticity Assumption (variance of the errors is constant)

According to Brooks, (2008) it has been assumed thus far that the variance of the errors is constant, σ2 - this is known as the assumption of homoscedasticity. If the errors do not have a constant variance, they are said to be heteroscedastic. To test for the presence of heteroscedasticity, the popular white test was employed.

It is hypothesized that as follows

Ho: There is no heteroskedaticity problem (homoskedasticity)

Ha: There is heteroskedaticity

Table 2: Heteroskedasticity Test:White

F-statistic	0.493021	Prob. F (44,72)	0.9935
Obs*R-squared	27.08928	Prob. Chi-Square(30)	0.9789
Scaled explained SS	21.28082	Prob. Ch-Square(44)	0.9985

Source: Eview 9 output (2018)

According to Brook, (2008) indicated that if the P-values of these test statistics are considerably in excess of 0.05, then the test give conclusion that there is no evidence for the presence of hetro-scedasticity. It is clear evident that the errors are homoscedastic. Therefore, based on this statistic we fail to reject the null hypothesis that is indicated as there is no Heteroscedasticity for the models.

C. Test for Assumption of Autocorrelation

It is assumed that the errors term is uncorrelated with one another. If the errors are not uncorrelated with one another, it would be stated that they are auto correlated. This is an assumption that the errors are linearly independent of one another (uncorrelated with one another). The simplest test is due to Durbin and Watson (Brook, 2008). To test this assumption, the DW stat value in the main regression table should be considered.

The Durbin-Watson test statistic value in the regression result was 1.71. To identify determinants of three selected Ethiopian MFIs financial performance, 30 (10*3) observations were used in the model.

Therefore, to test for autocorrelation, the DW test critical values were used. Then relevant critical lower and upper values for the test are dL= 1.421 and dU=1.670 respectively. The values of 4 - dU = 4-1.670=2.33; 4 - dL = 4-1.421=2.579. The Durbin-Watson test statistic of 1.71 is clearly between the upper limit (dU) which is 1.670 and the critical value of 4- dU i.e.2.33 and thus, the null hypothesis of no autocorrelation is within the non- rejection region of the number line and thus there is no evidence for the presence of autocorrelation.

D. Multicollinearity Test

An implicit assumption that is made when using the panel LS estimation method is that the explanatory variables (independent variable) are not correlated with one another.

Table 3 Multicollinearity test

	ROA	NOf	NWB	CPB	AOB	PR/90	OSE	WrOBP
ROA	1							
NOf	-0.26	1						
NWB	0.397	-0.1997	1					
CPB	0.023	-0.0708	-0.1441	1				
AOB	-0.29	-0.0061	0.51377	-0.0037	1			
PR/90	-0.74	0.1674	0.2897	-0.0569	0.262 41	1		
OSE	-0.31	-0.221	0.2638	-0.1127	0.200 72	0.3606	1	
WrOBDP	0.573	0.1404	-0.8298	0.1112	- 0.552 44	-0.4126	-0.4746	1

***Source: Eviews 9 output (2018)

If there is no relationship between the explanatory variables (independent variable), they would be said to be orthogonal to one another. If the explanatory variables were orthogonal to one another, adding or removing a variable from a regression equation would not cause the values of the coefficients on the other variables to change (Brook, 2008). According to Gujarati, (2004) multicollinearity could only be a problem if the pair-wise correlation coefficient among

regressors is above 0.90 Hailer et al, 2006 cited in Birhanu, (2012) which is not more or less the case in the study variables.

Table 4: Summary of One Way ANOVA on Determinants performance of Ethiopian three Microfinance Institutions from perspectives of ROA Structures

Organizations	Depth of our reach	Write-Offs During the Period	Cost per borrower	Percent of women borrower	number of office	Average outstanding balance / GNI per capita	Operational self-sufficiency (OSS)	Portfolio at risk after 90 days	Return on Asset
VMFI	710,982.8	7.10%	215	16%	134%	174,717	63587.7	4.00%	854,243.3
AwSCI	859,794.9	0.20%	373	32%	142%	248,387	77128.3	12.70%	6,617,751.81
AdSCI	1,192,847.5	0.80%	575	31%	219%	281,001	106462.8	7.40%	10,709,617.444

Source	Sum of Squares	df	Mean Square	F	Sig.
VMFI	9773.42	2	4886.71	73.15	.000
AwSCI	12758.35	15	8766.79		
AdSCI	13897.35	16	9445.89		
Total	22531.77	15			

***Significant at 0.05 level

***Source: Eviews 9 output (2018)

Result regrading to above Table 4: Summary of One Way ANOVA on Determinants of Financial performance of Ethiopian three Microfinance Institutions from difference ROA Structures is the highest rate of return margin indicated in AdSCI 13897.35-birr which is as we seen on table 1 outstanding performance is a result of high portfolio yields and excellent portfolio quality comparing to AwSCI indicated IRR by 12758.35 birr and VFMI s indicated IRR by 9773.42 birr at significance of (p=000). Addis saving and credit union financial performance is the highest 10 years of generally achieve a higher Return on Assets than licensed and supervised MFIs. Addis saving and credit union is explained by the fact that microfinance NGOs, with low Debt/Equity Ratios and limited possibilities to fund themselves in financial and capital markets which is supported by government, need to rely heavily on retained earnings to fund future growth.

Based on the summary of the above tables 4 out of three MFIs secured a positive return on asset and were good in using retained earnings and own money to become sustainable. But the remaining vision fund micro finance in other hand shows low return.

4.3. Regression Results for the performance of Ethiopian Microfinance Institutions

Regression Results for the performance of Ethiopian Microfinance Institutions using model misspecification tests (tests for the Panel Regression Model assumptions), and finally presentation of panel data regression analysis and discussion of results.

Table 5 Regression Results the performance of three selected Ethiopian Microfinance Institutions				
Variable	Coefficient	Std. Error	t-Statistic	Prob
C	0.694431	0.279287	2.486444	0.000
Number office	-0.052376	0.029584	-1.770387	0.079**
percent of women borrower%	0.111282	0.105724	1.052566	0.000
Cost per borrower	-0.866409	0.530318	-1.633752	0.000
Average outstanding balance / GNI per capita	-3.99E-06	0.000231	-0.017279	0.000
Portfolio at risk after 90 days%	0.085164	0.003097	1.66738	0.000
Operational self-sufficiency (OSS)	0.319385	0.093648	3.410466	0.001*
write off during the period %	-0.0212	0.030696	-0.690636	0.000
R-squared Adjusted R-squared S.E. of regression F-statistic Prob(F-statistic) DurbinWatsonstt	0.692794 0.680459 0.035309 56.026141 0.6233 1.719863			
*Significant **Significant	levele of 1% level of 10%			

***Source: Eviews 9 output (2018)

4.4 Discussion of the Results

From above table 5: result based on the regression result, the R^2 value is 0.692 (69.2 %) which implies that 69% of fitness can be observed in the sample regression line. This can be further explained as, 65% of the total variation in the financial performance that is ROA is explained by the independent variables (Number office, percent of women borrower%, Cost per borrower,

Average outstanding balance / GNI per capita, Portfolio at risk after 90 days%, operational self-sufficiency (OSS), write off during the period %) jointly.

The remaining 30% of change is explained by other factors which are not included in the model. The Prob (F-statistic) value is 0.000 which indicates strong statistical significance, which enhanced the reliability and validity of the model. Each variable is described in detail under the following sections.

Result regarding to Number office indicated explanatory coefficient of =-0.052376 which is Number office in a MFI welfare function is the negatively shows performance of the MFI in the total client outreach welfare at 10% significance level. If MFI prioritizes improvement of Number office of the poor over the better off, then reduction of out richness would improve societal welfare (Quayes, 2012).

For example, AwCSI number of branches is limited to seven from 2008-2017 lower values imply deeper outreach with a presupposition that poor clients take small-sized loans.

Result regarding to the percent of women borrower% indicated explanatory coefficient of=.111282 this ratio is seen to be a very significant indicator of outreach considering the vulnerable nature of women by 11% in most communities and the fact that they are usually undermined especially in rural areas.

This awareness creates the understanding that in a community where more women have been reached, that community has been positively impacted socially since it is expected that women there would now be in some form of meaningful business (Armendariz & Szafarz, 2011).

Result regarding to Cost per borrower indicated explanatory coefficient of = -0.866409 which is reflects inefficiency on the part of the MFI as well as the MFIs inability to perform socially since loans given out are expensive. Taking into account this understanding, this result assigns a

ratings mark of negative ratio to the MFI with the lowest cost per borrower ratio and a mark of lower than 25% to the MFI with the highest cost per loan ratio.

Result regarding to Average outstanding balance / GNI per capita indicated explanatory coefficient of = 3.99E-06 is expected to be better-off shows low ratio hence in measuring performance. The biggest value of rating (100%) is assigned to the lowest ratio whereas the smallest value (25%) of Average outstanding balance / GNI per capita rating is assigned to the highest ratio (Quayes, 2012). This is must be done by a normalization process.

Result regarding to Portfolio at risk after 90 days% indicated explanatory coefficient of =0.085164 suggests, this indicator gives a hint of the portion of an MFI's portfolio that may be at risk because payment is overdue by 8.5%. A decreasing trend for this indicator is a positive indication. Furthermore, a decreasing trend for this indicator may mean that MFIs have been able to have a positive effect on clients and hence repayment of loans is prompt.

Result regarding to operational self-sufficiency (OSS) indicated explanatory coefficient of =0.319385 shows MFI can have an ability to cover its costs of operation using internally generated income. This ratio primarily is expected to be an efficiency ratio thus helping expose the efficiency of an MFI.

However, its involvement in this result as one of the indicators to measure performance is based on the argument that the efficiency of the MFI is relevant in performing socially as this could lead to less costly services to clients.

Result regarding to write off during the period % indicated explanatory coefficient of =-0.0212 which is underwritten to three MFI of the in Ethiopia which is are opted from each branch to interrogate the common trends in their write off ratios is negatively appended the performance.

The findings of this study reveal that the write of ratios of MFI found low rate of integrations while no common trends in write off ratios are found and observed in the MFI empower low-income individual who are capable of lifting themselves out of poverty if given access to financial services.

But, most of microfinance institutions in this study need charge high rates of Write-offs are an expense that straightforwardly diminishes the profit levels of an MFI.

For MFIs, maintaining sufficient cash is important not only to pay bills, salaries or creditors but also uphold its promise to provide repeat loans to clients, which is a major incentive to repay loans. Similarly, any financial institution that fails to repay client deposits on time is likely to lose client confidence and access to future funding.

4.5 Social Performance of the Studied MFIs

Social performance for an MFI involves achieving their social mission, it also involves an MFI's continuing commitment to behave ethically and contribute to the economic development while improving the quality of life of their clients, the workforce and their families as well as the local community and society at large. The current study will use the CERISE's Social Performance Indicators Tool which gives a MFIs' social performance index using four dimensions, targeting and outreach, appropriateness of products and services, benefits to clients and social responsibility. This measure is more comprehensive as it includes all other separate measures used in prior studies in generating the score (CERISE, 2005).

The SPI Tool is an open access tool that assesses the principles, actions and corrective measures implemented by an MFI to achieve its social objectives. The indicators are used to score the MFI's social performance based on targeting and outreach, products and services, benefits to clients and social responsibility (Bedecarrats, Lapenu, & Tchala, 2010).

Dimension 1: Targeting and outreach

All respondents agreed that their respective MFI select operating areas based on criteria of poverty/exclusion. The lion's shares of clients come from poor/excluded areas. VMFI loan officers travel to hard-to-reach rural areas to ensure that communities have access to the financial services that are necessary to help build their livelihoods. According to the respondents, their MFIs are established to serve the people in greatest need around the world, to relieve their suffering and to promote the transformation of their condition of life. They seek to understand the situation of the poor and work alongside them toward fullness of life. The following idea of one respondents confirms this: We seek to facilitate an engagement between the poor and the affluent that opens both to transformation. We respect the poor as active participants, not passive recipients, in this relationship. They are people from whom others may learn and receive, as well as give.

The studied MFIs objectively verify the poverty level of areas where they operate. This is confirmed from one respondent who stated that: By measuring incoming clients' poverty levels, we can learn how well we are targeting households living in poverty and subsequently developing livelihoods. Targeting information shows that we are serving some of the poorest communities around the world. For example, we have learned that the majority of new clients in Ethiopia make less than $1.25/day.

The MFIs focus on women clients as they are the key caregivers for their families and research shows that women spend more of their income on the family and household than men. It was learnt that over 1.1 million clients were served of whom, 73% were female clients and impacted almost 3.9 million children across the country. Microcredit has been directed at women because it was believed that, compared to men, they are better clients of microfinance institutions and

that women's access to microcredit has more desirable development outcomes, since women tend to spend more money on basic needs compared to men. Empowerment of women has led to their higher social status, better education and more independence and increased bargaining power of women within household.

Women empowerment is a key objective of MF interventions. Women need empowerment as they are constrained by the norms, beliefs, customs and values through which societies differentiate between women and men. MFI cannot empower women directly but can help them through training and awareness rising to challenge the existing norms, cultures and values that place them at a disadvantage in relation to men and to help them have greater control over resources and their lives (Mosedale, 2003). Littlefield (2003) stated that access to MFI can empower women to become more confident, more assertive, more likely to take part in family and community decisions and better able to confront gender inequities. All respondents stated that their MFIs do not provide unsecured loans.

Dimension 2: Products and Services

The studied MFIs provide various products and services specifically tailored to clients' social and productive needs. In relation to this, one respondent claimed that At VMFI, the real needs of our clients are important to us. We listen to our clients and design products that are useful in their lives. The MFIs allow local branches to adapt their products and services to clients' needs.

VMFI offers Financial Services - Business Loans, Savings & Insurance, Women & Child Well-being Products and Client Education, as clearly indicated by the following verbatim of the interviewed official: Nearly 90% of the loans we offer are to help clients develop a business that provides them and their families with a secure income and increased resilience. These loans alone help parents to build brighter futures for their children as livelihoods are developed. But

there's more that we can do. We also offer child well-being loans. These are specifically tailored for parents and provide funds to intentionally make a positive impact on children. We are continuing to develop this product and these loans have grown 2% over the past year, now making up 11% of our total portfolio.

The services offered by the MFIs are Microloans of 700-5000 ETB (for business that are Engaged in petty trade, micro food processing etc), Small loans of 5000-250000 ETB, Consumption Loan 700-10000 ETB (for permanent worker of governmental organization), Agricultural Loan of 700-250000 ETB (for customers engaged in animal husbandry, fattening, farming, horticulture, poultry, bee farming, etc), Micro Lease Loan of 250000 ETB for those customers involved in priority business areas and willing to pay 10% of the machine in advance, Short term Loan of 50000-150000 ETB for Individuals engaged in any legal business activity, and Housing Loan of 700-350000 ETB for any person that has permanent income from business or other sources.

Apart from providing local money transfer services, the MFIs are accepting both voluntary and compulsory savings as well as demand and time deposit. On average, it takes 1-2 days to disburse a first loan, while the effective interest rate of the main loan product is 9-12 %. The MFIs have already developed linkages with other actors inside and outside the microfinance sector. While endorsing this, one respondent claimed that: At VMFI, we realize this, so we work with outstanding organizations, networks, individuals and foundations around the world to leverage each other's gifts and talents. We have collaborated with a selection of international networks to apply and advocate for strong client protection practices and led the industry to advocate greater use of child protection policies. Our MFI participate in national and regional networks that provide important training, urge necessary changes and promote effective

microfinance services.

Dimension 3 – Economic benefits for clients

A study of different MFIs from all over the world pointed out that having access to MF services have led to an enhancement in the quality of life of clients, had increased their self confidence, and had helped them diversify their livelihood security strategies and thereby increase their income (Robinson, 2001). Health care and education are two key areas of non-financial impact of MF at a household level. Wright (2000) stated that from the little research that has been conducted on the impact of MF interventions on health and education, nutritional indicators seem to improve where MFIs have been working. MF interventions have been shown to have a positive impact on the education of clients‟ children because one of the first things that poor people do with new income from micro-enterprise activities are to invest in their children's education (Littlefield, Murduch & Hashemi, 2003).

The respondents asserted a positive influence of micro finance on the client's level of education, health and nutrition. The clients have developed an ability to cope with economic shocks by means of savings, credit, and micro-insurance products. The impact of MF on livelihoods is focused in terms of the changes to livelihoods assets and the use of livelihood assets to cope with vulnerability. The provision of MF can assist the poor find the means to protect their livelihoods against shocks and to build up and diversify their livelihood activities (Johnson & Rogaly, 1997).

Similarly, a study conducted on the Dedebit Credit and Saving Institution (DECSI) found that DECSI's program has had a positive impact on the livelihoods of its clients. Compared to non-clients, clients have experienced greater improvements over the last five years (2000 –2004). Their situation has improved in terms of income, consumption and assets. They also seem to be more food secure and less vulnerable to shocks and have a greater diversification in terms of

income sources. The study found that the improvement in economic condition of the clients is a necessary condition for DECSI's program that could lead to social and political empowerment for the marginalized groups. The study also concluded that economic empowerment leads to social and political empowerment

VMFI's Recovery lending enabled rapid client recovery and was affordable and did not lead to over indebtedness. Recovery lending covers its costs and does not have an abnormal credit risk The studied MFIs provide training and capacity building both at client and management levels. Training programmes for loan officers and MFI managers, regional and global conferences to share best practices, and standardized performance management policies are all tools used to help build staff and develop capabilities. In relation to clients, for instance, VMFI developed a new innovative model of client education that is simple, sustainable and easily replicable. 212,728 clients received financial literacy education during 2017 to help our clients develop the essential skills they need to understand how to make best use of the financial services they receive from VMFI, such as the importance of making timely repayments and, most crucially, saving for the future. The education programme is provided by loan officers using portable flip charts. Clients attend in small groups during regular meetings with their loan officers with each session lasting about 10 minutes. The sessions are highly interactive so that clients are fully engaged. The MFIs have received very good feedback from clients about how useful the courses are and MFIs' ongoing interaction with clients shows that clients are understanding, remembering and implementing what they have learned. The MFIs are also rendering managerial, marketing, technical, and administrative advice to customers and assisting them to obtain services in those fields.

Dimension 4: Social Responsibility

It was found that the MFIs have a clear salary scale based upon market salaries and most of their staff is employed with a long-term contract. They regularly provide basic training to loan officers on critical components of participatory education and facilitation. They are focused on developing employees to enable them to grow their careers within MFIs especially in VMFI. This career progression is provided through onsite training and development courses and workshops, online training courses, mentoring employees and external training courses as appropriate. The MFIs are determined to ensure staff security, as expressed by one respondent in the following manner: Safeguarding our employees is important to our performance and from our survey results we can see that our employees feel secure in their work. Every employee must complete an online personal security training module every three years to effectively prepare them to face the risks in our operational contexts and all of our MFIs have a member of staff who will report and address any security threats.

The employees participate in decision-making regarding strategic decisions of the MFI. However, the MFIs do not provide health coverage for their employees. The MFIs desire to protect and serve their clients well. To that end, they have implemented an array of policies, procedures and initiatives such as:

- The smart Campaign which is an industry initiative that sets standards of client protection principles in areas such as prevention of over-indebtedness, responsible pricing, fair and respectful treatment of clients and mechanisms for client complaints. They have embedded these guidelines in their operating policies, training and audit procedures.
- Code of conduct has been rolled out among the MFIs.
- 23 MFIs have completely installed the client complaint mechanism. This means that in every branch the client complaint poster has been placed in their local language and

includes an independent telephone hotline which clients can call to air their concerns. Furthermore, the number is included in all loan documents.

- In their continued commitment to transparency in pricing, the studied MFIs are monitored and ensure that pricing is in accordance with their respective country regulations. Furthermore, VMFI reviews MFI pricing to ensure fair and balanced sustainability while working in remote areas.
- Six MFIs have undertaken intermediate reviews by external rating bodies to provide guidance on progress towards certification standards; three MFIs have completed formal certification rating and are awaiting results; three are already certified. The MFIs safeguard privacy of clients' data.

Whenever an organization is required to manage large numbers of cash transactions, minimizing fraud is of a critical value. The MFIs take the operational risk of fraud very seriously and is continuously working to minimize fraud at all levels. For example, within VMFI's risk management approach, fraud is minimized through proper operational controls, global and regional systems of checks and balances that limit and warn of fraud occurring in a timely manner, immediate reporting as well as internal and external auditing. Cashless banking and Internet-connected real time loan processing have been introduced, increasing efficiency and further reducing the risk of fraud. When fraud is detected, VMFI acts swiftly in accordance with its zero tolerance policy.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

Summary of One Way ANOVA result on Determinants performance of Ethiopian three Microfinance Institutions from perspectives of ROA Structures Addis saving and credit union financial performance is the highest 10 years of generally achieve a higher Return on Assets than licensed and supervised MFIs. Addis saving and credit institution is explained by the fact that microfinance NGOs, with low Debt/Equity Ratios and limited possibilities to fund themselves in financial and capital markets which is supported by government, need to rely heavily on retained earnings to fund future growth.

Based on the summary of the above tables 4 out of three MFIs secured a positive return on asset and were good in using retained earnings and own money to become sustainable. But the remaining vision fund micro finance in other hand shows low return.

It concluded that of the Result based on the regression result regarding to Cost per borrower indicated that it is inefficiency on the part of the MFI as well as the MFIs inability to perform socially since loans given out are expensive due to Cost per borrower highly. This result assigns a ratings mark of negative ratio to the MFI with the lowest cost per borrower ratio and a mark of lower than 25% to the MFI with the highest cost per loan ratio.

Result regarding to Average outstanding balance / GNI per capita indicated that it is predictable to be better-off shows low ratio hence in measuring performance is low. Regarding to Portfolio at risk after 90 days% indicated explanatory coefficient gives a hint of highly portion which is the MFI’s portfolio that may be at risk because payment is overdue by 8.5%.

In other hand, operational self-sufficiency (OSS) indicated explanatory shows MFI can have an ability to cover its costs of operation using internally generated income. Similarly, to study reveal that the write of ratios of MFI found low rate of integrations while no common trends in write off ratios are found and observed in the MFI empower low-income individual who are capable of lifting themselves out of poverty if given access to financial services. But, most of microfinance institutions in this study need charge high rates of Write-offs are an expense that straightforwardly diminishes the profit levels of an MFI.

This indicated to making off out of an advance is an accounting transaction to escape assets from being unreasonably stretched by credits that could not be recovered. The making off out of a loan impacts the gross loan portfolio and loan disaster keeps proportionally. Unless acquirement keeps are hurting for, the transaction ought to not update total assets, net loan portfolio, overheads or net pay.

In relation to Targeting and Outreach indicator of social performance, the studied MFIs were serving primarily rural women with children. Participation of clients in microfinance program has brought about significant reduction in the level of poverty. The MFIs have been improving the lives of children in the developing world by offering small loans and other financial services to families living in poverty. Its clients are able to develop successful businesses, which enable them to ensure their children grow up healthy and educated. The MFIs' focus on saving groups and small holder farmers was found to be less. The assessment of services provided shows that the MFIs were offering different types of products and services tailored to heterogeneous social segments and customer needs. It was reported that accessing the different services of the MFI's has resulted in higher income, which in turn, led to better access to education, healthcare,

sanitary infrastructure, food supply etc. The studied MFIs were also adequately discharging their social responsibility towards various actors.

5.2. Recommendations

Based on the findings of the research, the researcher has recommended certain points what he thought to be very critical if considered and implemented by the microfinance institutions accordingly and properly. Therefore, the following recommendations have been given:

- The result also shows that the MFI Institution should focus to raise their Operational self-sufficiency (OSS) effort to enhance their profitability. Instead of increasing their number of offices, the MFIs are advised to offer innovative services such as mobile banking.
- MFIs management should give great attention a good management policy or reducing cost per borrower and write off during the period by employing different technology.
- These unique characteristics of microfinance make MFIs a high potential vehicle for reaching and organizing poor communities need to be increase number of women borrower;
- MFIs serve difficult-to-reach clients with whom they maintain regular contact, a relationship which is essential for interacting with vulnerable populations;
- It should be able increase outreaches High quality MFIs develop a trust-based relationship with clients, which increases the MFIs ability to discuss difficult topics;
- Because MFIs often work with organized groups of clients, Write-Offs During the Period (WODP), Operational self-sufficiency (OSS) and Portfolio at risk after 90 days(PR) can be delivered on a leveraged basis.

- Although most of the microfinance institutions are giving out credit, it seems the credit is not large enough to improve the livelihoods of women. It therefore recommended that microfinance institutions increase their loan threshold. An increase in loan threshold will have a greater multiplier effect on women's income through profits from income generating activities. Even though the current threshold improves profit, the margin is not enough to have the expected impact on the lives of rural women.

References

Abate, G. T., Borzaga, C., & Getnet, K. (2013). Financial Sustainability and Outreach of Microfinance Institutions in Ethiopia: Does Organizational Form Matter? Eunice Working Paper Series, n. 56 ፧13.

Adams,J. , Khan, H.T.A., Raeside , R. and White,D. (2007) Research Methods for Graduate Business and Social Science Students, Sage Publications

Al-Bagdadi, H. and Brüntrup, H. (2002). Microfinance Association: The case of the Association of Microfinance Institutions Ethiopia (AEMFI), Division 41 Economic Development and Employment Promotion, GTZ.

Alemayehu Y. (2008). The performance of Micro Finance Institutions in Ethiopia: A case of six microfinance institutions, MSc thesis, Addis Ababa University, Ethiopia.

Arega Seyoum Asfaw . (2007). Assessment of the Financial and Operating Performance and Challenges of MFIs in Addis Ababa,

Armendáriz de Aghion B. & Morduch, J. (2010). The Economics of Microfinance. Portfolio at Risk, MIT Press, Cambridge.

Armendariz, B., & Szafarz, A. (2011). On Mission Drift in Microfinance Institutions.

Asia Development Bank. (2000). Finance for the Poor: Microfinance Development Strategy.

Amin, M. (2005). Social Sciences Research,Conception, Methodology and Analysis. Kampala: Makerere University Prente.

Balya, J., Buzaalirwa, L., Linnemayr,S., Rana,1Y., and Wagner,G. (2012): A Qualitative Exploration of the Economic and Social Effects of Microcredit among People Living

with HIV/AIDS in Uganda. AIDS Research and Treatment. Volume 2012, Article ID 318957, 7 pages

Bennan, N. (2006). Boards of Directors and Firm Performance:is there an Expectations Gap?

Bryman, A.,& Bell, E. (2007). Business Research Methods. Oxford: Oxford University Press.

Campion, A.,Linder, C.,& Knotts, K. (2008). Putting the 'Social' into Performance

Cho-Beroff.et.al (2000), Enhancing Rural Financial Intermediation in Ethiopia. World Bank, Addis Ababa.

Consultative Group to Assist the Poorest (CGAP). (2003). The Impact of Microfinance. Donor Brief No. 13. Washington D.C.: CGAP.

Commercial Bank Profitability in Sub-Saharan Africa. IMF Working Paper WP/09/15.

CGAP (2007). Beyond Good Intentions: Measuring the Social Performance of Microfinance Institutions.

CGAP (2013a). Top 10 Lessons on Social Performance Management for Microfinance.

CGAP (2013b). Six To-Dos Now For Responsible Investors.

Coleman, T. & Rogers, S. (2009). Why Use Social Indicators? Making the Case to MFIs and Other Stakeholders.

Christen, R. P.,Lyman, T. R.,& Rosenberg, R. (2003). Microfinance Consenss

Economist Intelligence Unit (EIU). (2013). Global Microscope on the Microfinance Business Environment.

Elia, M. (2006) Microfinance: Text and Cases, Basics on micro finance cases studies from the Arab Region.

Getaneh Gobezie and Carter Garber (2007): Impact Assessment of the Microfinance Programme in Amhara Region of Ethiopia, International Conference on Rural Finance Research: Moving Results into Policies", FAO Headquarters, Rome Italy

Heentigala, K. (2011). Corporate Governance Practices and Firm Performance of Listed Companies in Sri Lanka, Doctoral Thesis submitted to Victoria Graduate School. Melbourne: Victoria University.

Helms, B. 2006. Access for all building inclusive financial systems World Bank Publications.

Helms, B.(2006). access for all, building inclusive financial system The International Bank for Reconstruction and Development. The World Bank, Washington, DC 20433

Hermes, C., & Hudon, M. (2018). Determinants of the Performance of Microfinance Institutions: A Systematic Review. (SOM Research Reports; Vol. 2018, No. 008). Groningen: University of Groningen, SOM research school.

IFAD. (2011). Rural Finance Intermediation Program: Appraisal Report, Vol. II, And Africa II Division Program Department: Addis Ababa, Ethiopia.

Kar, A. K. (2010). Sustainability and Mission Drift in Microfinance: Empirical Studies on Mutual exclusion of Double Bottom Lines.

Kothari, C. R. (2004). Research Methodology: Methods and Techniques. Mumbai: New Age International (P) Ltd.

Lapenu, Bruyne & Verhagen. (2008). The Role of Investors in Promoting Social Performance in Microfinance.

Ledgerwood, J. (1999). Microfinance Handbook: An Institutional and Financial Perspective, World Bank, Washington D.C. World Bank.

Leonard, M., Linder, C., Faris, M. E., Lal, N. & Meggs, A. (2009). Social Performance Management (SPM) Toolkit Manual.

Makokha, M.G. (2016) Factors that Determine Financial Performance of Microfinance Institutions: a Case Study of MFIs in Nairobi County. A Management Research Project Submitted in Partial Fulfillment of the Requirement for the Award of Master of Business Administration (MBA) Degree, School of Business, University of Nairobi.

Maitrot, M. (2018). Understanding Social Performance: A 'Practice Drift' at the Frontline of Microfinance Institutions in Bangladesh. Development and Change 00(0): 1–32.

Melekamu Feyesa (2016). Determinants of micro financial profitability in in Ethiopia the case of Amhara saving and credit union;2010-2014 annual data, Bahardar university, Ethiopia

Microfinance Institutions Exchange. (2015). Overview of the Outreach and Financial Performance of Microfinance Institutions in Africa

Millson, H. F. (2013). The Trade-Off Between Sustainability and Outreach: The Experience of Commercial Microfinance Institutions.

Muriu, P. (2011).Microfinance Profitability: What explains the low profitability of African microfinance.s? PhD Thesis, Birmingham Business School, University of Birmingham.

National Bank of Ethiopia. (2013). Annual Report 2012.

Nelson, S. (2011) Performance Assessment of Micro Finance Institution in the Ashaiman Municipality, MSc thesis.

Okumu, L. J. (2007). The Microfinance Industry in Uganda: Sustainability, Outreach and Regulation.

Quayes, S. (2012). Depth of Outreach and Financial Sustainability of Microfinance Institutions. 44 (2012), 3421– 3433.

Rahel Hurissa, (2011). Achievements and Challenges of Microfinance Institution in Ethiopia: the Case of Addis Ababa, Bachelor's Thesis, Degree Programme in International Business, JAMK University of Applied Sciences, Jyvaskyla, Finland

Zeller, M., Lapenu, C. & Greeley, M. (2003). Social Performance Indicators Initiative (SPI) Final Report.

Schreiner, M. (2002). Aspects of Outreach: A Framework for the Discussion of the Social Benefits of Microfinance.

Simonsen, M.S. (2016), Effect of Ownership Types on the Social Performance in Microfinance Institutions, University of Agder, School of Business and Law, Department of Economics and Finance

Singh, K. Y. (2006) Fundamentals of research methodology and statistics, new age international (p) limited, New Delhi- 110002

UNDP. (2005). Human Development Report 2005: Millennium Development Goals. New York: Oxford University Press.

Wagenaar, K. (2012). Institutional Transformation and Mission Drift in Microfinance.

Waithaka , S. M., (2013): Factors that influence the social performance of microfinance institutions in Kenya A thesis submitted in partial fulfillment for degree of Doctor of Philosophy in Entrepreneurship in the Jomo Kenyatta University of Agriculture and Technology

Wolday, A. and Peck, D. (2010), Agricultural finance potential in Ethiopia Constraints and opportunities for enhancing the system AMFI, Addis Ababa Ethiopia.

Woller, G. (2006). Evaluating MFIS'' Social Performance: A Measurement Tool. USAID.

Yonas, N. (2015). Determinants of Financial Sustainability of Ethiopian Microfinance Institutions, 2010-2014, MSc thesis. Addis Ababa University, Addis Ababa, Ethiopia.

Johnson, S. & Rogaly, B. (1997) "Microfinance and Poverty Reduction. London": Oxfam and Action Aid

Littlefield, E., Morduch, J., Hashemi, S.(2003) "Is Microfinance an Effective Strategy to Reach the Millennium Development Goals?", Focus Note No. 24, CGAP, Washington, USA,

Robinson, M. (2001) "The Microfinance Revolution: Sustainable Finance for the Poor, World Bank, Washington.

Wright, G.A. N. (2000)"Microfinance Systems: Designing Quality Financial Services for the Poor", Zed Books Ltd. London & New York, and The University Press Limited, Dhaka.

N.B:

According to Ethiopian academic tradition, the first given names of Ethiopian authors appear in the intra-text citations. The list of references section (bibliography) should nevertheless provide first given names followed by the second names. The same style has been maintained in this thesis.

Summary of Descriptive Statistics					
Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROA	30	-.05	-.07	0.294	0.02474
Write-Offs During the Period	30	6.5	15.67	10.2107	2.33549
Cost per borrower	30	20.25	58.63	36.9780	11.55211
Percent of women borrower	30	15.00	59.00	26.9333	12.01704
number of office	30	2.00	177.00	44.10	47.66937
Average outstanding balance / GNI per capita	30	-100.03	1463.77	643.3863	517.55213
Operational self-sufficiency (OSS)	30	57573	134439.90	40176.697	47571.5679
Portfolio at risk after 90 days	30	3.67	18.67	9.3363	2.38495

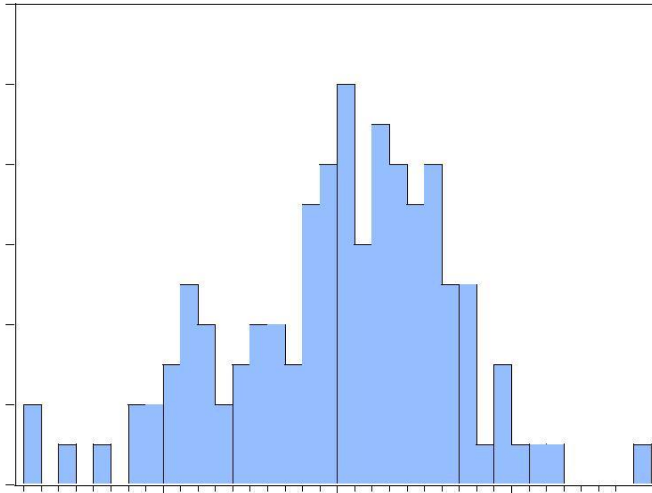
	ROA	NOf	NWB	CPB	AOB	PR/90	OSSE	W Ro Bp
ROA	1							
NOF	-0.26	1						
NWB	0.397	-.0.1997	1					
CPB	0.023	-0.0708	-0.1441	1				
AOB	-0.29	-0.0061	0.51377	-0.0037	1			
PR/90	-0.74	0.1674	0.2897	-0.0569	0.262	1		
OSSE	0.31	-0.221	0.2638	-0.1127	0.20072	0.360 6	1	
WROBDP	0.573	0.1404	- 0.8298	0.1112	-0.5524	0.412 6	-0.4746	1

**. Correlation is significant at the 0.01 level .

Regression result

	Coefficient	Standard error	t-value	p-value
C	0.694431	0.2979287	2.486444	.000
WODP	-0.0212	0.030696	-0.690636	0.079
CPB	-0.866409	0.530318	-1.633752	.0.000
PWB	0.111282	0.105724	1.052566	0.000
AUB	-3.99E-06	0.000231	-0.017279	0.000
OSS	0.319385	0.093648	3.410466	0.001
NO	-0.052376	0.029584	2.48644	.000
PR	0.085164	0.003097	1.66738	-.000
R-square	0.692794			
Adjusted R-square	0.680459			
S.E. of regression	0.035309			
F-statistic	56.026141			
Prob. (F-statistic)	0.6233			
Durbin Watson test	1.719863			

**Source: eviews output from VMF SC financial statements data, 2018.



Series:	Standardized Residuals
Sample:	2008- 2017
observations	30
Mean	-10.67e-18
Median	0.003725
Maximum	0.079914
Minimum	-0.077369
Std. Dev.	0.032121
Skewness	-0.319287
Kurtosis	3.093339
Jarque-Bera	3.667590
Probability	0.184275

St .Mary University

School of Graduates Studies

Department of Accounting and Finance

Dear Respondent,

This questionnaire is designed to collect information on “An Assessment of Social and Financial Performance Determinants: Lessons from Selected Ethiopian Micro Finance Institutions (MFIs)”. This study is being done for academics purpose only i.e. for a research paper in partial fulfillment of requirements for the MBA in Accounting and Finance Program, College of Business and Economics, St.mary University.

I promise that the information you give will be treated with utmost confidentiality and at no time will your name be mentioned in this research paper without your explicit consent. Furthermore, no information provided will be used for any other purpose other than this academics research.

Yours assistance in facilitating this research will be highly appreciated.

Thanks in advance.

Sincerely,

Mamaru Gisilaw

PART ONE: RESPONDENT PROFILE

Name of the Respondent:_________________________________

Organization:____

Position:___________________________

Age:__________

Sex:__________

Educational Status:_______________

Years of Experience:_________

PART TWO: THE SPI TOOL INTERVIEW QUIDE.

Dimension 1: Targeting and outreach

1. 1 Does the MFI select operating areas based on criteria of poverty/exclusion?

1. 2 What percentage of clients comes from poor/excluded areas?

1. 3 How does the MFI verify the poverty level of areas where it operates?

1. 4 Does the MFI serve clients living in rural areas?

1. 5 Does the MFI have regular service points located in areas where there are no other MFIs or bank branches?

1. 6 Does the MFI use a targeting tool to select poor clients?

1. 7 How does the MFI ensure that the tool is properly used by loan officers?

1. 8 Does the MFI measure the poverty levels of its entering/recently joined clients (less than one year in the program)?

1. 9 What percentage of all entering/recently joined clients are estimated to be below the poverty line, at the end of the reporting year?

1. 10 What percentage of clients are women?

1. 11 What percentage of clients is from socially marginalized and/or vulnerable groups?

1. 12 Does the MFI provide unsecured loans?

1. 13 Does the MFI provide loans with alternative forms of collateral in order to facilitate

productive loans?

1. 14 Does the MFI provide small loans (≤ 30% GNI per capita) to facilitate access for the poor?

1. 15 Does the MFI authorize small installments (< 1% GNI per capita)?

1. 16 Does the MFI allow the opening of saving accounts with very small amounts (≤ 1% GNI)?

1. 17 Does the MFI encourage solidarity between the different branches of the institution or between the different loan products?

Dimension 2: Products and Services

2. 1 How many different types of loan products does the MFI offer?

2. 2 Does the MFI provide emergency loans?

2. 3 Does the MFI provide loan products specifically tailored to clients' social needs?

2. 4 Does the MFI provide loans specifically tailored to clients' productive needs?

2. 5 Does the MFI allow local branches to adapt their products and services to clients' needs?

2. 6 Does the MFI propose voluntary savings products, directly or in partnership with other institutions, or actively promote savings?

2. 7 Does the MFI (or a partner financial institution) provide voluntary savings specifically tailored to clients' social needs?

2. 8 To what extent are the MFI's operations decentralized?

2. 9 Timely delivery: On average, how long does it take to disburse a first loan?

2. 10 What is the effective interest rate of the main loan product?

2. 11 Does the MFI use market research to identify the needs of clients and potential clients?

2. 12 What percentage of borrowers dropped out of the MFI during the last accounting year?

2. 13 How does the MFI obtain feedback from dropouts on their reasons for leaving?

2. 14 Does the MFI provide innovative financial services to more than 5% of its clients

2. 15 For regular financial transactions, do loan officers have to leave the MFI's premises to visit clients?

2. 16 Has the MFI developed linkages with other sectors and/or other actors outside the microfinance sector ?

2. 17 Does the MFI (or partnering institution) offer services related to enterprise management?

2. 18 Does the MFI (or partnering institution) offer services that address social needs?

Dimension 3 – Economic benefits for clients

3. 1 Does the MFI track changes in the poverty levels or economic status of clients over time?

3. 2 Did any of the staff participate in training or orientation sessions related to any aspect of SPM ,during the reporting year?

3. 3 Does the MFI conduct performance appraisals of staff in relation to social performance management?

3. 4 Has the MFI taken corrective measures due to negative impacts on social cohesion or client welfare?

3. 5 Does the MFI have an explicit strategy to reduce costs of services as much as possible?

3. 6 Does the MFI have a formal policy on how clients benefit from profits generated by the MFI?

3. 7 Does the MFI adopt special measures or have special funds in case of collective disaster?

3. 8 Can MFI clients participate in decision-making?

3. 9 Are there elected client representatives at the governance level (board of directors)

3. 10 Is there an effective system to determine the rotation of client representatives?

3. 11 What percentage of all client representatives are women?

3. 12 At the client level or management level, does the MFI provide training and capacity building?

3. 13 Are these participatory bodies effective?

3. 14 Does the MFI help clients resolve problems beyond access to financial services?

3. 15 Does the MFI or partnering institution offer support services that specifically aim at women's empowerment?

3. 17 Has the MFI sought to increase clients' influence with local or national government?

3. 16 Does the MFI have effective strategies in place to communicate policy decisions to clients?

Dimension 4: Social Responsibility

4. 1 Does the MFI have a clear salary scale based upon market salaries?

4. 2 What percentage of staff is employed with a long-term contract?

4. 3 Are training programs accessible to all types of employees?

4. 4 Can the employees participate in decision-making regarding strategic decisions of the MFI?

4. 5 Does the MFI provide health coverage for all its employees?

4. 6 Does the MFI have a specific policy with regard to women staff?

4. 7 What percentage of the MFI staff left the MFI during the last 12 months?

4. 8 Prevention of over-indebtedness: What does the MFI do to avoid client over-indebtedness?

4. 9 Does the MFI ensure transparent communication on costs and fair pricing of its products?

4. 10 Does the MFI offers transparent and fair credit conditions and collection practices to its customers?

4. 11 Ethical staff behavior: Does the MFI ensure staff ethical codes of conduct are consistently followed?

4. 12 Does the MFI have a complaint procedure for clients that is explained to them?

4. 13 Client confidentiality: Does the MFI safeguard privacy of clients' data?

4. 14 Does the MFI have a policy defining social responsibilities to the community?

4. 15 Is the MFI proactive in promoting local social and economic development?

4. 16 Does the MFI have an environmental policy for clients/microenterprises it finances?

4. 17 Does the MFI have an environmental policy for its own organization's practices?

- What are the other social impacts of MFIs not mentioned above?
- What solutions do you suggest to enhance the overall performance of MFIs in Ethiopia?

Profile of the Respondents

No	Name	Age	Sex	Organization	Years of Experience	Educational Level	Position
1	Ashebir Birhanu	55	M	AdSCI	31	MBA	Managing Director
2	Serekeberhan Zerye	48	M	AdSCI	29	BA	Operations Manager
3	Mekdes Hailu	38	F	AwSCI	14	BA	General Manger
4	Yemisirach Elias	35	F	AwSCI	11	BA	Loan Manger
5	Worku Tsegaye	50	M	VMFI	35	MBA	General Manger
6	Amare Shibeshi	49	M	VMFI	31	MBA	Operations Manager
7	Behailu Fekadu	37	M	NBE	13	MBA	MFIs Supervision Directorate Director
8	Challa Ketema	40	M	AEMFI	15	MA	Senior Social Performance Officer