ST. MARRY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIE

Challenges of Microfinance Institutions a Case of Addis credit and saving institution

A Thesis submitted to school of graduate studies of St.Marry's University.

In partial fulfillment of the requirements for the degree of masters of Accounting and Finance

Submitted by: - Felasfa Tesfaye Melake

Advisor: - Mohammed Seid(Ass. Professor)

December 2021

Addis Ababa

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STATEMENT OF CERTIFICATION

This is to certify that Felasfa Tesfaye Melake has carried out his research on the topic entitled “Assessment of challenges of Addis Credit and saving Institution S.c

This work is original in nature and is suitable for the award of M.SC degree in Accounting and Finance.

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Dean, Graduate Studies	Signature	Date
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Advisor	Signature	Date
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Internal Examiner	Signature	Date
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External Examiner	Signature	Date

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Dean, Graduate Studies	Signature	Date
Mohammed Seid(Ass. Professor)	____________	___________
Advisor	Signature	Date
______________	__________	_________
Internal Examiner	Signature	Date
______________	__________	_________
External Examiner	Signature	Date

STATEMENT OF DECLARATION

I, declare that this study entitled “Assessment of challenges of Addis Credit and saving Institution S.c is my own work. I have carried out individually the theses work with supervision and support of the research advisor. This study has not been submitted to degree/diploma in this or any other institutions. It is done in partial requirement of the M.SC degree in Accounting and Finance.

Felasfa Tesfaye Melake : ________________________

Date:

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ACRONYMS AND ABBREVIATIONS

AdCSI	Addis Credit and Saving Institution S.c
BRI2	Bank Raykat Indonesia
UNCDF	UN Capital Development Fund
MDGs	Millennium Development Goals
(NGOs)	Non-governmental organization
MFI.	Micro finance Institution
SEEP	Small Enterprise Education and Promotion
CGAP	Consultative Group to Assist the Poor
MDGs	Millennium Development Goal
ROSCAs	Rotating Savings and Credit Association
POCSSBO	Project Office for the Creation of Small Scale Business Opportunities
DECSI	Dedebit Credit and Saving Institution
NBE	National Bank Ethiopia
ACSI	Amhara Credit and Saving Institution

Abstract

The purpose of this study is to assess on MFIs in Ethiopia and more specifically, Addis credit and saving institution operations regarding its challenges. Reviews of research design, the research method, the research approach, the methods of data collection, the selection of the sample, the research process, Sampling Techniques, the type of data Analysis, the ethical considerations and the research limitations of the project. The findings confirmed that Staff training is available of capacity building of all AdCSI employees, HR Office it has Owen problems the procedures and recruitment process are not transparent and clear for all staffs. Management department doesn't give final decision for some problems it happened in the institutions. AdCSL registered and licensing by NBE at the time of establishment. People often used funds for consumption rather than entrepreneurial investments this is the major weakness of the Clint. The result of study show the lending capacity of the institute limited and restricted amount of money, there is lack of skilled manpower , there is high staff turnover ,Government and the city administration to interfere on the policy and regulation against the financial industry, Government body influence MFIS in order to accomplish its political issues, government assigned inefficient directorate boards member, there is lack of modern financial system, technology and data management most of the time working by manual because of this the service doesn't deliver efficiently.

Keywords: Microfinance, Poverty, Challenge, Efficiency, Sustainability.

CHAPTER ONE

1. INTRODUCTION

The introductory chapter starts with a background of the subject and an analytical model that will be researched, followed by a problem discussion and the research questions, then the purpose of this study and target groups will be presented. This chapter will end up with significance, limitation, scope of the study, frame work of the study and organization of the study.

1.1 Background of the Study

Financial institutions have been developed in response to the tremendous growth of economic development, resulting in their increased importance to the world economies. There is a growing financial services and increasing dominance of both manufacturing and services in economies worldwide. The tremendous growth and economic contributions of this service sector has drawn increasing attention to the issues and problems of microfinance institutions industries worldwide.

One of the best recognized facts of rising economies is that formal financial institutions leave the poorest population tightly constrained in their entrée to financial services. It is also broadly accepted that economic development depends on largely on access to financial services such as savings, insurance, and credit. Where formal financial institutions fail the large majority of the poor population, there is recommendation to support the intention that microfinance institutions & credit unions can fill some of the gap (Barham, Boucher and Carter, 1996). Micro-Finance Institutions (MFIs) are often well-defined in terms of the following characteristics. Targeting the poor (especially the poor women), encouraging small businesses, building capacity of the poor, extending small loans without guarantee, combining credit with savings and charging commercial interest rates. MFIs are often inventive and flexible in their design and operation (Dejene, 1998) Micro finance is the chance the poor never had. It provides credits and savings services to the self-employed to enable them to start-up or expand small income generating actions. The representative micro finance customers are low-income persons that do not have access to formal financial institutions. Micro-Finance clients are normally employed regularly house hold based entrepreneurs.

In rural areas, they are usually small farmers and others who are engaged in small income generating activities such as food processing and petty trade.

In urban areas, microfinance activities are more different and Include shopkeepers, service providers, craftsperson, street merchants, etc. Micro-Finance clients are poor and exposed non poor who have a fairly stable source of income.

The formal financial institutions have played little role in financing development efforts in the rural area because they are clustered in urban conglomerations, concentrate on funding large enterprise, inaccessible to the rural poor especially in terms of distance. In addition to this, the rural poor cannot fulfill banking requirements to obtain banks loan/credit. Besides, banking requirements for collateral or material guarantee and intrinsic banking procedure which in most cases is very difficult for the poor to deal with, the volume loan demanded by small farmers/poor is not appealing to the bank. Usually, small farmers or poor require small loan size that is known as micro-loan or micro credit and micro-finance services. Thus, processing of small or micro-loan is not financially practicable and it is hard to achieve. So as a result the formal financial institutions such as banks are reluctant to finance the demand of small farmers or lend small loan.

On the other hand, Credit from informal sources is in adequate and more over the interest charged on such loan is exceedingly exploitive or costly nature of informal financial sources of finance directed to the establishment of specialized financial institutions-MFIs with the purpose of covering micro credit to the rural and urban poor.

1.2. Statement of the Problem

In any business environment, satisfying a customer is the ultimate goal and objective. This is perhaps due to the fact that banks sometimes do not really understand of what actually goes on in a customer's mind.

The financial services industry is changing rapidly (Firdaus Abdullah, Rosita Suhaimi, Gluma Saban and Jamil Hamali, 2011). Technology, government regulation, and increasing customer sophistication are forcing financial service institutions to re-evaluate their current business practices. Financial institutions across the globe are re-examining how they are meeting their customer's needs today and developing business plans needed to align them strategically to remain competitive and profitable in the future.

The main reason for this study is to identify the major problems and challenges facing the Addis credit and saving microfinance institution. It is also a study that focus the challenges and problems that have been identified in various government challenges, the loan repayment process, the internal and external challenges that is to identify the problems of managerial and financial challenges of microfinance institutions specifically Addis credit and saving micro finance institutions.

Even though microfinance is said to be an effective tool to mitigate several social and economic challenges but there is a huge gap to bridge between the targeted objectives and reality because of this in this study focus and to identify the major challenges of Addis credit and saving micro finance institutions.

Micro finance sector is presenting high growth movement from time to time but there are a plenty challenges of financial and government problems in the industry that may result in systematic risk unless appropriate measure are taken as early as possible so the issue is how we can create practicable microfinance sector that can assist the poor on continuous basis and let the sector realize the very setup of poverty reduction and inclusive development finance are faced with numerous problems and challenges such as low outreach ,fund shortage and innovation and weak internal control system. The solution is for this problem is unlikely role providing long lasting relief from the undesired effect. Thus this study is primarily aimed to find the root causes of the challenges, problem and to mention subsequent measure to be taken.

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. For example,(Alemayehu ,2008) studied the financial and operational performance of micro finance institutions 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, (2012) and Melkamu, (2012) 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 and political factors like macroeconomic and industry and also they have not addressed specifically the idea of financial performance of MFIs. In addition Sima, (2013) 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 intention of this paper is, therefore to assess the challenges of micro finacial delivery system of AdCSI and its quality service provision and assess the impact of service quality delivery on customer satisfaction.

Keeping in mind the significance of micro finacial services in wellbeing of society in general, a study is designed to assess the challenges faced by AdCSI And then fills the gap in the Ethiopian MFIs specifically Addis credit and saving micro finance institutions.

1.3 Objectives of the study

1.3.1 General objective of the study

The general objective of the study to assess or present the challenges of Addis credit and saving micro finance institutions.

1.3.2 Specific objectives of the study

- To identify the internal challenges affecting the operation of MFIs in Ethiopia, specifically **Addis credit and saving institution.**
- To identify challenges originated from institutional regulation and political decisions on the MFI under scrutiny.

- To identify the challenges related with external factors which are out of control of the MFIS in the study.

1.4 Significance of the study

The study considers that the study would benefit policy makers, academics, managers of microfinance institutions, research students and the researcher. To the policy makers, the findings of the study would be of help as they regulate microfinance activities. To the academics, the researcher hoped that they would be in position to know and appreciate the context of the microfinance sector.

Furthermore, the study will:

- Add up to the store of knowledge on employee challenges on this sector to policy designers and in AdCSI in particular.
- Serve as guidelines for the formulation of policies on the quality of finicial institution's services.
- Help recognize that challenges that employees hold different types of expectations for service performance.
- Generally, the finding and conclusions of the study may help AdCSI management in decision making by understanding the problems from this findings with regards to the major colleges of Micro finance institution.

1.5 Scope of the study

The study focused on MFIs in Ethiopia and more specifically, Addis credit and saving institution operations regarding its challenges of a microfinance institution.

As far as the study content is concerned, factors affecting the MFI challenges were considered to be governance mechanisms, management information systems and funding. MFI challenges were looked at in form of outreach, sustainability, profitability and client outreach.

1.6 Limitation of the study

This study focuses on Challenges of MFIs in Ethiopia Addis credit and saving institution. The reason that the study not included the other micro finance institution due to complexity the have bring to gathering data related customer's, time and information, for example, internal ,external and political factors which determine the challenges of MFIs constraints. Except these limitations the study is believed to represent the true challenges of the institutions.

1.7 Organization of the study

The study will be organized in five chapters Chapter one consists of the introduction part, background of the study, statement of the problem, general and specific objectives of the study, scope of the study, significance of the study, limitation of the study. The second chapter discusses the literatures available in the area of factors affecting the callenges of MFIs which includes theoretical, empirical, conceptual frame work of the study and research gap. Methodology of the research, which includes research design, the data collection and tools, the source of the data, sampling techniques, data analysis methods and description of variables to be used in the research has been presented in the third chapter. The fourth chapter presents the results and discussions of the study based on data collected by the researcher from secondary source of data. The final chapter consists of summary of findings of the research work concluding the results and forwarding recommendations based on the findings of study.

CHAPTER TWO

2. LITRATURE REVIEW

2.1. Introduction

This chapter deals with different theories, definitions, history, thoughts, benefits of MFIs in developing countries, key principles, challenges faced by microfinance institutions, criticisms, challenges and measurements of MFIs. The difference between microfinance and traditional banking services, empirical literature reviews, and findings from previous microfinance literatures and research gap.

2.2 What Is Microfinance?

Microfinance, according to Otero (1999, p.8) is “the provision of financial services to low-income poor and very poor self-employed people”. These financial services according to

Ledger wood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services.

Schreiner and Colombet (2001, p.339) define microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks.” Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

Microfinance has been defined as: - the means by which poor people convert small sums of money into large lump sums (Rutherford 1999). Microfinance services may be seen in terms of four main mechanisms such as.

Loans: which allow a lump sum to be enjoyed now in exchange for a series of savings to be made in the future in the form of repayment installments?

Savings: which allow a lump sum to be enjoyed in future in exchange for a series of savings made now?

Insurance: which allows a lump sum to be received at some unspecified future time if needed in exchange for a series of savings made both now and in the future. Insurance also involves income pooling in order to spread risk between individuals on the assumption that not all those who contribute will necessarily receive the equivalent of their contribution.

Pensions: which allow a lump sum to be enjoyed as a specified and generally distant date in future in exchange for a series of savings made now?

2.3. Microfinance and microcredit.

In the literature, the terms microcredit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. Sinha (1998, p.2) states “microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc.)”. Therefore microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services (Okiocredit, 2005).

2.3 Poverty

The state of one who lacks a usual or socially acceptable amount of money or material possessions. Poverty is said to exist when people lack the means to satisfy their basic needs. In this context, the identification of poor people first requires a determination of what constitutes basic needs. These may be defined as narrowly as "those necessary for survival" or as broadly as "those reflecting the prevailing standard of living in the community." The first criterion would cover only those people near the borderline of starvation or death from exposure. The second would cover to people whose nutrition, housing, and clothing, though adequate to preserve life, do not measure up to those of the population as a whole.

2.4 The History of Microfinance

The history of micro financing can be traced back to the middle of the 1800s when the theorist Lysander Spooner was writing over the benefits from small credits to entrepreneurs and farmers as a way getting the people out of poverty. But it was at the end of World war II with marshal plan the concept had big impact (Stanley, 2018). There have been informal and formal credit and savings institutions for the poor around the world for centuries, one of the earliest and longer -lived microcredit organizations, which provided small loans to rural poor without collateral, were the Irish loan fund system, founded by author and nationalist Jonathan Swift at the beginning of the eighteenth century. In the 19th century, a wide range of larger and more savings and credit institutions started to emerge in Europe. These institutions which were organized primarily among the rural and urban poor were known as people's Banks savings and credit co-operatives and credit unions (Morin, 2018). The today use expression of microfinance has its roots in the 1970's when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Mohammed Yunus, were starting and shaping the modern industry of micro financing. Another pioneer in this sector is Akhtar Hammed Khan .At that time a new wave of microfinance initiative introduced many new innovations into

the sector. Many pioneering enterprises began experimenting with loaning to the underserved people .The main reason why microfinance is dated to the 1970's is that the program could show that people can relied on to repay their loan and that it is possible to provide financial services to poor people through market based enterprises without subsidiary (Scheyvens, 2015). Friedrich Whiliam Raiffeisen and his supporters developed the concept of credit union. They wanted to help the rural population become less dependent on money lenders and to improve their welfare. From 1870, the unions expanded rapidly across the Rhine province and other regions of German states.

Then the movements quickly spread to other European countries and to North American, eventually reaching developing countries as well. The Indonesian people's credit banks or the Bank Perkreditan Rakyat opened in 1895 and became the biggest microfinance in Indonesia. Various adaptations of these models started to appear across rural 11 Latin America at the beginning of the twentieth century. Unlike the banks in Europe, which were owned by the poor themselves, these new banks were owned by government agencies or private banks. Over the years, these institutions became inefficient and sometimes abusive. In the 1800s, Europe saw the emergence of larger and more formal savings and credit institutions that focused primarily on the rural and urban poor. The movement emerged in France in 1865 and Quebec in 1900.Many of today's financial cooperatives in Africa, Latin America and Asia find their roots in this European movement. Another early example is the Indonesian people's credit Banks (BPRs) that in 1895 and became the largest microfinance system in Indonesia, with close to 9,000 branches (Amaha & Kifile, 2016). When Mohammed Yunus started making small loans to local villagers in 1970's it was unclear where the idea would go. Around the world scores of state –run banks had already tried to provide loans to poor households, and they left a legacy of inefficiency, corruption, and millions of dollars of squandered subsidies. Economic theory also provided ample cautions against lending to low-income households that lack collateral to secure their loans. But Yunus vowed to one day make profits and he argued that, his poor clients would pay back the loan reliably. Today, Mohammed Yunus is recognized as a visionary in a movement that has globally, claiming over 65 million customers at the end of 2002. They are served by microfinance institutions that are providing small loans without collateral, collecting deposits, and increasingly selling insurance, all to customers who had been written off by commercial banks as being unprofitable. Advocates see the changes a revolution in thinking about poverty reduction and social change, and not just as a banking movement. The movement has grown through cross-pollination. Mohammed Yunus's Grammen Bank has now been replicated on five continents (Aghion & Morduck, 2005) Microfinance expanded enormously in 1990's. Policy makers, donors, practitioners and academics underline the role to microfinance as a powerful tool for poverty alleviator and economic development. Few economic agendas are as popular these days as microfinance, rural finance and microcredit. Subject through the world Bank –base consultative group to assist the 12 poor(CGAP) a consortium of international donors and other agencies like the Women's institutions on microfinance theory and practice (Degefe Duressa, 2009). According to "microfinance Barometer" (2017), in the year 2016 there were 123 million customers at microfinance institution worldwide for a loan of $ 102 billion. India was the leader in terms of microfinance in 2016, with 47 million borrowers and roughly $ 15 billion in outstanding loans. Vietnam was second, followed by Bangladesh, Peru and Mexico. The ranking shows strong momentum in South Asia. The region accounts for roughly 60 % of all borrowers and has the highest growth in terms of loans, up to 23.5% in 2016. Latin America and the Caribbean are also highly active in microfinance, with $ 42.5 billion in outstanding loans, compared with $9.3 % billon in Europe and $8.7 billion in Sub-Saharan Africa. Most borrowers were women in living in rural areas. They made up 84 % of borrowers in 2016, with people in rural areas representing roughly 60 % of the market.

2.5 Challenges of Micro finance institutions

Challenges of Micro finance institutions divided into three sections such as

a. Internal challenges

b. External challenges

C. Political challenges

Internal challenges

The Internal challenges of Microfinance institutions are the failure of many previous government's micro-financing schemes including rural and community banking scheme was predicated on both internal and external challenges they faced. Many of these challenges are still bedeviling MFIs at both macro and micro levels.

One of the most fundamental internal challenge of MFIs is high operational/transaction cost. The operational costs include payment of rent, utility bills, salary of employees, travel and transportation, administration, depreciation etc. Electricity and water tariff hikes coupled with epileptic nature of supply forces MFIs to provide themselves with electricity and water at excessive costs resulting in high operational costs, thus threatening their survival.

Other operational costs include service which is the most used medium for advertising MFIs products. In sum, small units of services, pose the challenges of high operating cost, several loan applications to be processed, numerous accounts to be managed and monitored, and repayment collections to be made from several locations especially in rural communities.

These they official to the incompetence of the sector to adequately compensate personnel. Other human resource problems faced by microfinance institutions include lack of training opportunities and poor conditions of service. The quality of manpower in these institutions is reflected in the poor performance of many of them, inefficiency and high levels of frauds and forgeries. The institutions also suffer from high labor turnover a further indication of low staff motivation and poor personnel practices. Further, for MFIs that operates small branches or agencies which are really connected by weak transportation and monitoring branch or agency activities or field officers activities to prevent internal fraud and theft is a major challenge.

This challenge has resulted in several fraud cases where field officers under record the actual deposits or reimbursements of their customers and in some cases escape with deposits collected. MFIs with such challenges most often gloss over them.

Supervisors and managers of such MFIs most often do not undertake random visit with their field officers to interact with some of its customers and to verify their deposits in the case of Susu clients and the repayment of loans. This is because of MFIs inability to develop an attractive incentive package system to enable it to attract well qualified and motivated staff to support its operations. Inadequate supervision and non-monitoring coupled with poor record keeping contribute to the continuation of fraud and cash theft.

Another potential problem is a chance that staff with bad track record in one MFI can be recruited to other MFIs and in time will create problems in the new MFI.

The External challenges

Microfinance institutions in Ethiopia One of the most fundamental external challenge .MFIs in Ethiopia have is the near absence of basic infrastructure.

This lack of basic infrastructure compounds the operational difficulties of these banks, which ordinarily are faced by high operational costs because of their nature of business. The absence of good roads, electricity, telecommunications and information technology etc. especially in the rural areas also distorts their outreach.

The lack of banks culture in the rural areas, peri-urban and between the urban poor is another factor influencing against the growth of MFIs. Normally these people borrow money from friends and relatives and repay the same amount of money borrowed no matter the tenure of such loans. They therefore find it difficult to understand the payment of interest on bank loans, coupled with the fact that the rate of interest charged by MFIs leaves a lot to be desired.

Another external challenge was health problem, currently Covid 19 the most world problem of for each activity in this case all activity locked down for some months. Because of this the lender doesn’t paid the loan they take from micro finance institution.

The Political challenge

Political instability reduces micro finance performance and inputs required to provide loans and other earning assets. Moreover, it gets worse economic performance and debt status of the country, firms, and investors. Other reason is political challenge the tendency of a government collapse either because of conflicts or widespread competition between various political parties. In addition to this economic growth and investment one of Micro finance challenges an increase in the strength of political instability decreases investment, hence slowing down economic growth.

2.6 Two schools of thought in microfinance

Microfinance brings the development sector and business sector together around the goal of providing credit to millions of poor people who do not have accesses formal credit institutions.

These two sectors are represented in the two main schools of thoughts in microfinance one that Favors serving the poorest of the poor and one that favors sustainability (Mohan, 2005).These Goals are not mutually exclusive, but complementary to one another.

2.6.1. Pro-poor school of thought

The primary goal of the pro-poor school is to serve the poorest of the poor. These organizations look to microfinance as means to break the cycle of poverty and work with people to build stronger livelihoods. It can be riskier and more expensive to serve this group. The poverty camp is housed within the development sector. Non-profits and NGOs servicing this segment of the population often rely on grants and donor funding to sustain their programs. Those in the pro-poor camp feel that unless they focus on the poorest of the poor, this group will not realize the benefit of microfinance.

2.6.2. Sustainable school of thought

The primary goal of sustainability school is to grow in scale and be financially self-sustaining, Providing loan without grants or donor funding. The sustainability camp views the private sector with socially conscious for profit organization as the future home of microfinance. These organizations look to sustainability and efficiency to provide loans on a larger scale. However, self-sustainability is difficult, and many organizations seeking this as their primary goal will have to make difficult decisions. More stringent collateral requirements and practical favoritism to larger loans may lead sustainability-bound organizations away from serving the poor clients that they originally served. Both development and sustainability are two sides of the same coin and are most important two pillars of microfinance.

2.7. Benefits of microfinance in developing countries

According to (Ayres, 2019) the benefits of microfinance in the developing countries were

Discussed as follows;

1. It allows people to better provide for their families

Microfinance allows for an added level of resiliency in the developing world. Even when

Households are able to work their way out of poverty, it often takes just one adverse event to send them right back into it. It's often a health care issue that causes a return to poverty. By allowing entrepreneurs to become more resilient through their own effort at their own business, it gives them the opportunity to make it through times of economic difficulty. Most of the households that take advantage of the microfinance offer that are available in developing countries live in what would be considered "abject poverty". This is defined as on $ 1.25 per day or less- though some definitions extend this amount to $ 2 per day or more. About 80% of that amount goes to the purchase or creation of food resources. By offering microfinance Products that can be repaid with that remaining 20 %, more households have the opportunity to expand their current opportunities so that more income accumulation may occur.

2. It gives people access to credit

Muhammad Yunus, who is often credited as the modern father of microfinance, once gave $27 to women out of his own pocket because he saw how the cycle of debt affect their work crafting bamboo chairs. Most banks will not extend loans to someone without credit or collateral because of the risks involved in doing so, yet those in poverty do not have any credit or collateral. By Extending microfinance opportunities, people have access to small amount of credit, which can then stop poverty at a rapid pace. Yunus has always believed that credit is a fundamental human right. There are certainly some financial institutions which may disagree with his assessment. Yet without credit, it can be difficult, if not impossible for someone in poverty, to pursue an idea that could bring about a giant payday one day. Microfinance makes that pursuit possible

3. It serves those who are often overlooked in society

In many developing nations, the primary recipient of microloans tends to be women. Up to 95 % of some loan products are extended by microfinance institutions are given to women. Those with Disabilities, those who are unemployed, and even those who simply beg to meet their basic needs are also recipients of microfinance products that can help them take control of their own lives.

Women are key figures leadership roles in business, even in the developed world. Catalyst has reported that companies with female board directors are able to obtain returns that are up to 66 %better in returns in invested capital and 42% better in terms of sales returns than companies with male board members only. Women also develop others more frequently when it comes to entrepreneurial roles. This comes from coaching, feedback, or investments. Even in the developed world, women helping women is an economic force that poverty can’t stop.

4. It offers a better overall loan repayment rate than traditional banking products.

When people are empowered, they are more likely to avoid defaulting on a loan. Women are also statistically more likely to repay a loan than men, which is another reason, why women are targeted in the microfinance world. There’s also the fact that for many who receive a microloan, it is their only real chance to get themselves out of poverty, so they’re not going to mess things up. Zenger Folk man published a survey regarding ratings of high integrity and honesty in leadership roles that was separated by gender. The mean percentile of women displaying these traits was 55%, while for men, it was just 48 %. In business, the bottom line is this: integrity matters. Microfinance institutions have recognized this and approached women because of this. As a side effect of this approach, many developing countries are taking a new look at what roles women should play in society. Instead of treating a women as a second-class citizen, or the ”barefoot in the kitchen and pregnant” attitude that has been prevalent in the past, the success of women in bring their households out of poverty is evidence that proves women not only have an initiative to get things done, but they produce consistent results. For these reasons, microfinance institutions see total repayment rates of higher than 98% though there can be several accounts that are overdue at any given time.

5. It provides families with an opportunity to provide an education to their children.

   Children who are living in poverty are more likely to have missed school days or not even enrolled in school at all. This is because the majority of families who live in poverty are working in the agricultural sector. The families need the children to be working and productive so their financial needs can be met. By receiving micro financing products, there is less of a threat of going without funding, and that means more opportunities for children to stay in school. This is especially important for families with girls. When girls receive just 8 years of a formal education, they are four times less likely to become married young. They are less likely to have a teen pregnancy. In return, this makes girls more likely to finish schooling and then either obtain a fair-paying job or go onto a further educational opportunity.

6. It creates the possibility of future investments

The problem with poverty is that it is a cycle that perpetuates itself. When there is lack of money,

There is a lack of food. When there is a lack of clean water there is a lack of sanitary living condition. When people are suffering from malnutrition, they are less likely to work. A lack of sanitary creates the potential of illness that prevents working days. Microfinance changes this by making more money available. When basic needs are met, families can then invest into better wells, better sanitation, and afford the time it may take to access the health care they need. As these basic needs are met, it also means that there are fewer interruptions to the routine. People can stay more productive. Kids can stay in school more consistently. Better health care can be obtained. This creates a lower average family size because there are more guarantees of survival in place. And when that happens, the possibilities of future investments will occur because there is more confidence in being able to meet basic needs.

7. It is a sustainable process

How much risk is there with a $100 loan? Some investors might pay that for a decent dinner Somewhere. Yet $100 could be enough for an entrepreneur in a developing country to pull themselves out of poverty. This small level of working capital is sustainable because it's essentially a forgettable amount. If there is a default on that money, the interest and high repayment rates of other microloans will make up for it. Then repayments are reinvested into communities so that the benefits of microfinance can be continually enhanced. Each repayment becomes the foundation of another potential loan.

This is why many microfinance products have relatively high interest rates. Some institutions may charge the equivalent of a 20% APR, but others have interest rates which exceed 80%. Although interest is high, recipients are invested into making these products work because virtually all institutions put repayments back into new loans that target the most vulnerable households in the developing world.

8. It can create real jobs

Microfinance is also able to let entrepreneurs in developing countries be able to create new employment opportunities for others. With more people able to work and earn an income, rest of the local economy also benefits because there are revenues available to more through local businesses and service providers. It's not just the entrepreneurial level that benefits from job creation through microfinance. Grameen Bank in Bangladesh employs over 21,000 people and their primary financial products are related to microfinance. That's tens of thousands of jobs that are created by the industry with the sole purpose of being able to drag people up and out of poverty.

9. It encourages people to save

When people have their basic needs met, the natural inclination is for them to save the leftover Earnings for a future emergency. These create the potential for more investments and ultimately Even more income for those who are in the developing world. Some microfinance institutions Have seen extraordinary number of savings occur when products are extended. The unit Desai Of Bank Rakyat Indonesia counts 28 million savers to just 3 million microloan borrowers. Now saving isn't always seen, especially from borrowers, but this is part of the expected Microfinance process. Small loans make small financial improvements for households living in poverty. The difference between making $ 1.90 per day and $ 2.30 per day is not much in reality, but by definition, that amount takes someone out of extreme poverty. Instead of big improvements, microfinance allows for small improvements. When enough of those improvements occur, then there is a safe place for people to store their income thanks to this industry.

10. It reduces stress

There is a valid argument to be made that some microloans go to cover household expenses instead of business needs. Some are using these loans to pay bills or purchase food. It is true. Yet without this product available, there wouldn't be an ability to pay bills or purchase food. So even though it may not always be used for business purposes, it still serves a purpose by reducing stress. Stress cannot be underestimated when it comes to poverty. Even in the developing world stresses of poverty can be overwhelming. It causes people to seek out coping mechanisms that are not always healthy. And, in some cases, it may even cause families to break apart. Sometimes child birth is a coping mechanism for poverty simply because an extra set of hands means an extra chance for income. By reducing these stress makers, households can focus on the job at hand to provide for themselves, even if that means net income levels for that family may not rise in the near future.

11. It allows people to feel like they matter

The feeling of receiving a credit product for the first time cannot be ignored. It's a feeling like you've made it. That you really are somebody because, you've been trusted with credit. This feeling applies to everyone, even in the developed world. Instead of focusing on how they can just survive, then being to look for ways to thrive. This brings us back to the stress that poverty creates on people. People, when they are approved for a microloan for the first time, will often have a reaction that is similar to Steve Martin's reaction in the jerk when he discovered his name in the phone book. And this is why Yunus feels that credit is a fundamental right. Without credit, survival is often best possible outcome. With credit, there is hope that anything can be possible.

12. It offers significant economic gains even if income levels remain the same.

The gain from participation in a microfinance program including access to better nutrition higher levels of consumption, and consumption is smoothing. There is also an immeasurable effect, which occurs when women are empowered to do something in their society when they might not normally be allowed to do so. As spending occurs, these benefits also extend outward to those who may not be participating in the program so that the entire community benefits.

2.8 Microfinance and its impact in development

Microfinance has a very important role to play in development according to proponents of microfinance. UNCDF (2004) states that studies have shown that microfinance plays three key roles in development. It

♦ helps very poor households meet basic needs and protects against risks.

♦ is associated with improvements in household economic welfare.

♦ Helps to empower women by supporting women's economic participation and so promotes gender equity.

2.9 Difference between microfinance and traditional banking services.

Many microfinance institutions operate very similarly to commercial banks. They are started with equity capital they borrow debt typically from banks, depositors and aid organizations. They lend as much as they can for the best terms possible (amount, interest rate, payback schedule) without

a) Being beyond the risk start set by some combination of their board of directors, management, and lenders

b) Violating local banking rules. Operationally, they have branch offices with credit officers who have relationships with community members and discuss the MFI's loan products with them, also retrieving interest and principal repayments if borrowers must in cash and lack the means to bring it to branch offices. Non-profit MFIs exist, but they grow to be exception rather than the norm, many MFIs started as non-profit have converted to for profits. The CEOs and CFOs of large MFIs are not that different in mindset than managers at similarly sized banks. Below are factors differentiating MFIs from traditional commercial banks.

A) Target market:

MFIs focus on lending to unbanked low-income families. This doesn't make them more charitable though since they are charging these families' higher interest rates than comparable people in those communities with higher income and/or securable assets (houses, motorbikes, etc.). Also, assets aside lower income borrowers are not necessarily much riskier for loans proportionally sized to their incomes as long as they have steady incomes. Frequently loans also increase family income (i.e. when they used to buy inventory for a store or seed so they can participate in the next harvest).

MFI borrowers can be just as likely as their richer community members to be diligent workers perhaps with small businesses (road side restaurants or stands, farms etc.) or secure jobs (in agriculture, retail, garment manufacturing, etc.) and they could have just as much drive to find new jobs as if they lose their current jobs. They could be just as motivated to improve opportunities for their families and maintain reputation as honest, upstanding community members.

B) No collateral Where as traditional bank lending is often secured by assets (house, motorbikes etc.), microfinance lending tends to be unsecured. Thus, the MFI does not take the borrower's assets if he/she fails to return the loan.

C) Greater leverage than traditional banks.

D) Lower costs of capital relative to risks.

E) Group lending some MFIs offer group lending product. For example, a 10 person group of community members may borrow individual loans and guarantee each other's.

Thus, they are reflectively borrowing the loans together since if one person cannot pay back his or her loan, the others have to pay it back or they all risk defaulting and never borrowing from the MFI again. The benefits of this model are social pressure and communal assistance, but it has been phasing out because in many cases the operating costs associated with its implementation make it less profitable than individual loans.

2.10 Providers and models of microfinance interventions

MIX defines an MFI as "an organization that offers financial services to the very poor." (MIX, 2005). According to the UNCDF (2004) there are approximately 10,000 MFIs in the world but they only reach four percent of potential clients, about 30 million people. On the other hand, according to the Microcredit Summit Campaign Report (Microcredit Summit, 2004) as of December 31st 2003, the 2,931 microcredit institutions that they have data on, have reported reaching "80,868,343 clients, 54,785,433 of whom were the poorest when they took their first loan". Even though they refer to microcredit institutions, they explain that they include "programs that provide credit for self-employment and other financial and business services to very poor persons" (Microcredit Summit, 2004). The differences between these sources highlight a number of points. Firstly, how the two terms, microcredit and microfinance are often confused and used interchangeably, though in the strictest sense microcredit should refer only to the provision of credit to the poor. Secondly, the difference between the statistics shows how difficult it is to get a true picture of how many MFIs are in existence today and how many clients they are reaching. The IMF5 state that "no systematic and comprehensive data on MFIs is collected and there are no authoritative figures on key characteristics of the microfinance industry, such as the number and size of MFIs, their financial situation, or the population served" (2005, p.6). Despite the lack of data on the sector, it is clear that a wide variety of implementation methods are employed by different MFIs.

The Grameen Bank (2000a) has identified fourteen different microfinance models 6 of which I will focus on three; Rotating Savings and Credit Association (ROSCAs), the Grameen Bank and the Village Banking models, as these are the three microfinance models that I encountered during my field research.

2.10.1 Rotating Savings and Credit Associations

These are formed when a group of people come together to make regular cyclical contributions to a common fund, which is then given as a lump sum to one member of the group in each cycle (Grameen Bank, 2000a). According to Harper (2002), this model is a very common form of savings and credit. He states that the members of the group are usually neighbors and friends, and the groups provides an opportunity for social interaction and are very popular with women. They are also called merry-grounds or Self-Help Groups (Fisher and Sriram, 2002).

2.10.2 The Grameen Solidarity Group model

This model is based on group peer pressure whereby loans are made to individuals in groups of four to seven (Berenbach and Guzman, 1994). Group members collectively guarantee loan repayment, and access to subsequent loans is dependent on successful repayment by all group members. Payments are usually made weekly (Ledgerwood, 1999). According to Berenbach and Guzman (1994), solidarity groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as the Grameen Bank, who use this type of microfinance.

They also the initial objective was to reach 100 million people by 2005 but at the Latin America/Caribbean Microcredit Summit in April 2005 these objectives were changed (Microcredit Summit, 2005).

2.10.3 International Monetary Fund

Associations, Bank Guarantees, Community Banking, Co-operatives, Credit Unions, Grameen, Group, Individual, Intermediaries, NGOs, Peer Pressure, Rotating Savings and Credit Associations, Small Business and Village Banking.

Under the Grameen Bank variation of this model, groups contain five members and savings must be contributed for four to eight weeks prior to receiving a loan. Savings must also continue for the duration of the loan term. Only two of the group members receive a loan initially. After a period of successful repayment, two highlight the fact that this model has contributed to broader social benefits because of the mutual trust arrangement at the heart of the group guarantee system. The group itself often becomes the building block to a broader social network (1994, p.121).

2.10.4 Village Banking Mode

Village banks are community-managed credit and savings associations established by NGOs to provide access to financial services, build community self-help groups, and help members accumulate savings (Holt, 1994). They have been in existence since the mid-1980s. They usually have 25 to 50 members who are low-income individuals seeking to improve their lives through self-employment activities. These members run the bank, elect their own officers, establish their own by-laws, distribute loans to individuals and collect payments and services (Grameen Bank, 2000a). The loans are backed by moral collateral; the promise that the group stands behind each loan (Global Development Research Centre, 2005). The sponsoring MFI lends loan capital to the village bank, who in turn lend to the members. All members sign a loan agreement with the village bank to offer a collective guarantee. Members are usually requested to save twenty percent of the loan amount per cycle (Ledgerwood, 1999). Members' savings are tied to loan amounts and are used to finance new loans or collective income generating activities and so they stay within the village bank. No interest is paid on savings but members receive a share of profits from the village bank's re-lending activities. Many village banks target women predominantly, as according to Holt (1994, p.158) "the model anticipates that female participation in village banks will enhance social status and intra household bargaining power".

2.12. Microfinance Institutions in Ethiopia

National Bank of Ethiopia's report by end of 2019/20, the number of microfinance institutions (MFIs) reached 41. Their total capital and total asset increased by 17.3 and 10.5 percent to reach Birr 19.4 billion and Birr 92.2 billion, respectively. Similarly, their deposit mobilization went up by 6.7 percent to Birr 44.7 billion while their outstanding credit grew by 10.5 percent to Birr 64.9 billion (Table 4.7). National Bank of Ethiopia's (NBE-Annual Report, 2020). The five largest MFIs consisting of Amhara, Dedebit, Oromiya, Omo and Addis Credit and Savings institutions, which accounted for 82.6percent of the total capital, 90.1 percent of the savings, 85.9 percent of the credit and 86.3 percent of the total assets of MFIs by the end of 2019/20

Financial services for the poor can be a powerful tool to fight poverty. According to Wolday (2001), the delivery of financial service to the active poor has the potential to reduce poverty through creating employment opportunities from which the poor can increase income and consumption. But as poverty is a multi-dimensional problem, there is no single approach to eradicate it. According to Harper (2003), microfinance is not a panacea for poverty, but it is an important tool among poverty eradication programs.

The microfinance law (proclamation 40/1996) defines "micro financing business as "an activity of extending credit, in cash or in kind, to peasant farmers or urban small entrepreneurs. The loan size of which shall be fixed by the national Bank". The definition narrowed the nature of micro-financing activity, but recently, the NBE introduced regulatory changes such as allowing the MFIs to be engaged in financial services other than mere delivery of credit, halt limitation of credit amount and repayment schedule, prescription of interest rate by NBE is changed; as a result each of the MFIs fix their own interest rate.

Microfinance development in Ethiopia in institutionalized form is a recent phenomenon, but it has a long history in different forms. The majorities of the poor access financial services in Ethiopia through informal channels, like, Iquib, Idir, Moneylenders, friends, relatives. Even though the informal financial service providers have high loan recovery rate and benefit, the borrower with flexible loan terms but interest rates are very high Wolday, (2002). An early practice of providing pro-poor finance may date back to the immediate defeat of Italians with the establishment of the then Ministry of Agriculture in 1943 and Agricultural Bank of Ethiopia in 1945. The bank had the aim of providing microloan, to assist farmers with small farmland of which had been devastated during Italian invasion. The government believed that, through extending microloan for the purpose of purchasing agricultural inputs and repair houses can accelerate socio-economic development in the country.

According to Hailu (2000) and Wolday (2002)), some local and international NGOs granted credits to poor populations beginning from the 1970s and 1980s. This is also evident in

Wolday (2008) that besides credit provision, NGOs and donor funded projects had been delivering relief and development services such as emergency food, health, education, water, etc. since the 1970s. Degefe (2009), substantiate this argument of the provision of microcredit and saving schemes with the aim of helping those victims of drought and famine to develop self-employment opportunities as a result of it improve their livelihood. These are attributed to factors such as, provision of supply led financial service instead of demand driven financial service, lack of loan follow up, inappropriate loan size and terms, insufficiency of risk diversification, low interest rate that did not cover the cost.

According to Degefe (2009), with issuance of proclamation no. 40/1996 which is a regulatory framework used to license and supervises the microfinance sector in the country, all NGOs and government microcredit program were transformed to microfinance institutions. Wolday (2003) noted that the majority of the NGOs credit programs were terminated following the issuance of the proclamation. This allowed for the establishment of the deposit taking MFIs which are based on the new approach (i.e. the financial system approach), of targeting to reach financial sustainability and building sustainable institution. Currently, there are 31 micro finance institutions registered under the NBE (NBE, 2009).

Ethiopia is home to the two largest microfinance institutions in Africa: the Amhara Credit and Saving Institution (ACSI) and Dedebit Credit and Saving Institution (DECSI). But the remaining MFIs have also registered a remarkable growth in outreach, efficiency and sustainability Wolday, (2007). As of December 2006, the 27 MFIs had an active loan portfolio of about 2.2 billion Birr (USD 246 million) delivered to 1.5 million active clients. They also mobilized about 816 million Birr (USD 91 million) of savings from the clients and non-clients as well. And as of June 2007, the 27 MFIs that are registered under the NBE had active loan portfolio of about Birr 2.7 billion (291 million USD), which was delivered to 73 million active clients. They also mobilized about 951 million Birr (102 million US dollars) of saving Wolday (2008).This shows the Ethiopian MFIs have attained a significant level of outreach. But the demand for microfinance service seekers, according to a study commissioned by the UNDP in 2000, were six million, thus, it should be understood that the 27 microfinance institutions meet only less than 20% for the demand for financial service of the active poor Seyed, (2006); Wolday, (2008).

2.13 Empirical literature review

The micro finance institutions participation in several developing economies is escalating from time to time. Various studies on different countries on the performance of the MFIs confirm this (Adongo and Stork 2005, Zeller and Meyer 2002, Meyer 2002, Robert cull et al. 2007). For illustration, in Bangladesh a microfinance institution called Grameen Bank at the end of 2000 reported 2.4 million members, where 95 percent of them are women, with $225 million outstanding loan. In addition, Thailand also has reported impressive outreach through agricultural lending by the Bank for Agriculture and Agricultural Cooperative (Meyer 2002). In general, a lot number of microfinance institutions have registered impressive outreach in several developing economies including India, Cambodia, and others (Meyer 2002). A survey by Robert cull and others on the performance of leading MFIs in 49 countries finds interesting results. It founds over half of surveyed MFIs are profitable after making adjustment of subsides. It also acknowledged no proof of tradeoff between being profitable and reaching the poor.

For the Ethiopian case, there are few studies undertaken in relation to MFIs. But, the objectives addressed in these previous studies are different, insuring the value added of this study. Lakew (1998) examines POCSSBO's. Micro financing program contribution to poverty reduction. He found that after the credit program employment opportunity for the beneficiaries have been created. He also noted that the credit program of POCSSBO had positive effect on income and saving of the clients. In addition, He stated that medical, education and nutrition access of the clients had been improved. Similarly, Aklilu (2002) reviews the importance of micro finance institutions in developing economies based on countries' experiences.

In the review suggested for promotion of the existing well developed institution 'iddir" to facilitate growth of formal MFIs. Borchgrevink and et. al (2005), studies marginalized groups, credit and empowerment for the case of Dedebit Credit and Saving Institution (DECSI) of Tigray.

The study finds that the management group and three wered staffs are extremely marginalized groups. The assessment, the study found that the AdCSI has had Owen program it impact on the livelihood of and as well enhanced the social and political position of many clients. Concerning the constraints for the study noted that challenges of the process of lending mostly for small business size, culture of the Clint that mean poor habit for saving and loan repayment, bad political situations affect loan distribution and saving mobilization because of this the market or business fillet, lack of sufficient capital to access loan to their customers ,the utility of technology is very poor practice mean all process made by manual that it takes time for recording and reporting ,approval or decision making problem in the case of loan processing and government organization intervention are the major challenges of AdCSI

The study further noted, AdCSI in credit delivery in the region has more or less satisfied to most of the people with some exceptions in the urban area and rural area.

2.14 Summery and literature gap

The researcher reviewed the major challenges of MFIs there are internal, external, political challenge, the empirical literature review, findings from previous microfinance literatures, research gap between the microfinance and traditional banking services and the major benefits of MFIs in developing countries

There are so many problems review in the literature reviews faced with many problems and challenges of micro finance institution, such as low outreach, fund shortage, limited research and innovation, and weak internal control system. Finally The researcher investigate in this Literatures doesn't include MFI it has lack of Accessibility, lack of resource ,Government intervention, political interference ,lack of modern technology, There is no net working for each branch with head quarter and branches , level of Knowledge of employees ,lack of the borrower loan repayment process and interest rate it doesn't in detailed .

Chapter Three

3. RESEARCH METHODOLOGY

3.1. Introduction

Research method refers to techniques researcher use in performing research operation qualitative and quantitative research is a study that makes use of statistical analysis to obtain findings .In this research descriptive design approach was used because there are available literatures that describe the challenges of micro finance institution this helps the researcher to develop easier way based on theoretical back grounds.

3.2. Research Approach

Both qualitative and quantitative research approach are used. Qualitative research approach to research is concerned with subjective assessment of attitudes, opinions and behavior (C.R.Kothari, p. 5, 2004). Such an approach to research generates results either in non-quantitative form or in the form which are not subjected to rigorous quantitative analysis. Generally, the techniques of focus group interviews, projective techniques and in-depth interviews are used. In addition, the purpose of qualitative research is to gain a deeper understanding and describe a problem.

Quantitative research is based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity (C.R.Kothari, p. 3, 2004). The purpose of quantitative research is to gather, analyze, and measure statistical data. In a quantitative research approach a number of objects are selected and studied in order to increase the ability to draw general conclusions.

Based on this, the researcher has used both qualitative and quantitative research methods (mixed approach) in this study in order to understand the challenges Micro-financial Institution.

The study focuses on the Addis Credit and Saving Institution challenges. To understand more about the challenges of this institution the researcher has conducted an interview which is qualitative method. This method showed on how the Addis Credit and Saving Institution apply delivers its services to customers. Furthermore, since the purpose is to gain a better understanding of the challenges that faces like the subject under discussed micro financial institution.

3.3. Sampling Techniques

There are two major alternatives on how to select appropriate sample: probability and nonprobability sampling. Probability sampling gives every part of population an equal probability of selection**.** Simple random sampling will be employed when all the members of the population have same chance to be selected and no specific characteristic more than being a user of the selected company, is considered while selecting them. This type of sampling is also known as chance sampling or probability sampling where each and every item in the population has an equal chance of inclusion in the sample and each one of the possible samples, in case of finite universe, has the same probability of being selected (C.R.Kothari , p. 15, 2004).

For this study, simple random sampling was used. The researcher selected respondents from employees randomly, because employees are available and it is easy for the researcher to select randomly from the total employees.

study is to explore the effect of challenges of microfinance institution. Accessed financial services from AdCSI have been large to cover in the study due to financial and time constraints. Hence, total number of population 50 represent sample will be selected from AdCSI staffs for this study.

3.4. Sample size

Under this step sample size is selected, implying that the member of employees included in the study will be selected. Since it is difficult to determine the size of the sample and in order to make the right decision, different factors like the nature of research, time and money must be considered.

For this study, therefore, the require number of sample are selected random for the desire sample size taken. The selected sample woreda from Addis Ababa three branches namely Addis ketema, Arada and Gulelie and also head office has 50 employees from the total number of employees of AdCSI.

Sample size

Where n = sample size

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

Error (7%)

N= Population size

n= 50/1+50 (0.07^2)

= 50/1+50(0.0049) =50/1.245 = 40

The questionnaires were distributed to officers and managers of AdCSI the program have served more than one time at Head office and branch office.

3.5. Source of data collection

Once the research problem is defined and the type of research is selected, it is time to decide which technique is going to be used for collecting data. In this section different techniques are presented.

There are two major approaches (primary and secondary data) to gather information about a situation, person, or problem. Sometimes information required is already available and need only be extracted. However, there are times when the information must be collected. Based up on these broad approaches the information gathering data are categorized as primary and secondary data.

In this study both primary and secondary data are used. The secondary data about the service deliver and its quality is collected from journals, books, reports and articles and from different research previously done. The primary data is collected through interviews with AdCSI's manager and from questionnaires prepared for the AdCSI's customers and employees.When performing an interview there are several approaches to choose between like personal interview, and telephone interview. In this study, primarily personal interview is conducted, implying face-to-face contact with respondent (AdCSI's managers).   In this study quantitative survey is used as data collection method. A questionnaire will be prepared to get idea about the challenges faced of employees' experience on service. For understanding the importance and satisfaction of each service delivery dimensions a 5-scale questionnaire is used (1=agree, 3=neutral, 5=not agree)

3.6. Data presentation, Analysis and Interpretation

After collecting all the data the process of data analysis is undertaken. To summarize and rearrange the data several interrelated procedures are performed during the data analysis stage. The data collected from managers is analyzed by using qualitative data analysis; demographic characteristics are summarized by using frequencies and percentages for all variables including age, sex and work experience and also data gathered from employees. Finally data that are gathered from respondents through questionnaire is analyzed by using descriptive statistics, and comparative data analyze techniques.

3.7. Validity

Validity is concerned with whether the findings are really about what they appear to be about (Catherine, 2007). Validity defined as the extent to which data collection method(s)accurately measure what they were intended to measure (Catherine, 2007). Numbers of different steps will be taken to ensure the validity of the study:

- Data was collected from the reliable sources, from respondent who has experiences in delivering the service of the subject under discussed.
- Survey question were made based on literature review and frame of reference to ensure result validity.

Chapter Four

4. DATA ANALYSIS AND PRESENTARION

This chapter presents analysis, interpretation and findings of information collected through self -administered questionnaires with 50 randomly selected respondents of AdCSI employees. The analysis is based on the information obtained from employees and its management staffs. The analysis also incorporated information obtained through an interview with the three woredas and head office employees and managers.

In order to get a representative data 50 questionnaires were prepared and distributed to respondents, Out of these 50 questionnaires distributed to employees, including management, only 47 returned. And from the total of 5 questionnaires distributed to the managers were properly filled and returned. Thus, the analysis is based on the valid 47questionaries.

Table **4.1 Response rate of Questionnaires Administered**

	Employees			Managers		
Number	Correctly filled and Returned	Not Correctly filled	not Returned	Correctly filled and Returned	Not Correctly filled	not Returned
	42	-	3	5	-	-
Percentage (%)	94		6	100	-	-

Source: Researcher's survey finding (2021)

Findings of the study are presented in two separate parts. The first part deals with analysis of data gathered through questionnaire from randomly selected employees of AdCSI. The second part deals with analysis of data gathered from managers from head office and three wereda branch managers.

4.2 Demographic information of Respondents

The first part of the questionnaire consists of the demographic information of the participants. This part of the questionnaire requested a limited amount of information related to personal and demographic characteristics of respondents. Accordingly, the following variables about the respondents were summarized and described in the subsequent table. These variables includes: number of years the worker worked with the organization, age and sex.

Table 4:2 Characteristics of respondents by Sex and Age

Characteristics	Frequency	Percentage
sex		
male	29	**61.7**
female	18	**38.3**
age		
Under 21		
21-34	**22**	**46.8**
35-44	14	**29.8**
45-54	**11**	**23.4**
55 or older	-	

Source: Researcher's survey finding (2021)

As indicated in the table 4.2 about 61.7% respondents are male and the remaining 38.3% of the respondents are female. Regarding the age of the participants, the largest group (46.8%) is in the 21-34 years age group. The second largest group (29.8%) indicated in the 35-44 years age group and finally 23.4% of the respondents are in the 45-54 years age group**.**

Table 4:3 The number and percentage of respondents by educational level

Frequency	Percentage	
College Diploma	6	12.8
BA/BSC (degree)	33	70.2
Master Degree	8	17.0
Total	47	100.0

Source: Researcher's survey finding (2021)

Based on the responses gathered from the employees of the studied group, study found out that out of the total sample respondents 12.8 % of the respondents have college Diploma 70.2 % 0f respondents having BA degree. Furthermore the results showed that 17.0 % of the respondents have Master's. These results show us that the majority of respondents of AdCSI above BA holders. The result of study shows changed the previse studies that on AdCSI increases the capacity of working forces which represents 17% of the staff Masters level. This helps the target studied to deliver any assignments on deadline as the same time can perform certain works effectively. Because of this the internal challenges of the microfinance institutions improve the quality of man power and problems of unskilled man.

4.2. The Employees' perception towards Activities done in AdCSI to satisfy the customers and performance appraisal

There are three major challenges of microfinance institution such as internal, external and political. From each challenges selected only two questions for each.

The respondent explains the internal challenges as indicated below.

Addis saving and credit institution has adequate credit policy and procedure to guide its operation

AdCSI it has strong credit policy and procedure for guiding the institute operation. Because 48.9 percent of the most respondents agree with the questions. A good and adequate police must implement in MFI thought so many study's the same as this study.

Policies and procedures that helps MFI Transparency believes can be implemented to support produce an enabling environment for pricing transparency in microfinance, including their strengths and weaknesses.

Table 4:4 Addis saving and credit institution has adequate credit policy and procedure to guide its operation

	Frequency	Percent	Valid(%)	Cumulative Percent
strongly disagree	1	2.1	2.1	2.1
disagree	5	10.6	10.6	12.8
no opinion	3	6.4	6.4	19.1
agree	23	48.9	48.9	68.1
strongly agree	15	31.9	31.9	100.0
Total	47	100.0	100.0	

.Source (Survey questioner, 2021)

Sufficient Training is Available for Staff Related to their duties and responsibilities

One of the variables that may be expected to influence job delivery efficiency is 'the degree of attention given to working forces.' In this regard, the findings shows that AdCSI it doesn't give sufficient training available (40.4%) for staffs related to their duties and responsibilities.

Sufficient staff training generates Employee and Staff Retention Rates, Happier staff and better working areas and also generates morale.

Table4:5. Sufficient Training is Available for Staff Related to their duties and responsibilities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly dis agree	4	8.5	8.5	8.5
	disagree	19	40.4	40.4	48.9
	no opinion	11	23.4	23.4	72.3
	Agree	10	21.3	21.3	93.6
	strongly agree	3	6.4	6.4	100.0
	Total	47	100.0	100.0	

.Source (Survey questioner, 2021)

Political challenges affected by government the most respondent agree with, political regulator body affected the Micro finance institutions in different direction for example 38.3 percent of the respondent agree NBE are the bottlenecks for MFI operations .

Rules, regulation and directive issued by the NBE are bottlenecks for MFI operations

Table 4:6 Rules, regulation and directive issued by the NBE are bottlenecks for MFI operations

		Frequency	Percent	Valid	Cumulative Percent
Valid	strongly disagree	3	6.4	6.5	6.5
	disagree	12	25.5	26.1	32.6
	on opinion	9	19.1	19.6	52.2
	agree	18	38.3	39.1	91.3
	strongly agree	4	8.5	8.7	100.0
	Total	46	97.9	100.0	
Missing	System	1	2.1		
Total		47	100.0		

.Source (Survey questioner, 2021)

NBE has strong policy and procedure to mitigate credit and operational risk of MFIs

53.2 percent of respondents agree the NBE has strong policy and procedure to minimize the risk of credit .but 2.1 percent of the respondent they missing the question.

NBE prepared MFI supervision Directorate published at September 2010 Page 4, 1.3.3 explained there is no single risk management system that would fit for all microfinance institutions. Consequently, NBE requires each microfinance institution to develop its own comprehensive risk management system tailored to its needs and circumstances. Their risk management program, however, should at a minimum cover the following most common risks: a. Strategic risk b. Credit risk c. Liquidity risk d. Interest rate risk e. Operational risk

Table 4:7 NBE has strong policy and procedure to mitigate credit and operational risk of MFIs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	2	4.3	4.3	4.3
	disagree	2	4.3	4.3	8.7
	no opinion	11	23.4	23.9	32.6
	agree	25	53.2	54.3	87.0
	strongly agree	6	12.8	13.0	100.0
	Total	46	97.9	100.0	
Missing	System	1	2.1		
Total		47	100		

Source (Survey questioner, 2021)

The Third survey questioner was External Challenges

Skill level of MFIs clients is low

Most of the time the skill of MFIS clients are low, because 42.6 % of the respondents agree with this then the clients consume the loan with other propose rather than working.

Ayelech Eshete (2010) explained his analyses As indicated that in (76.7%) of respondents used the first loan for petty trade, 14(9.3%) respondents used the first loan for garments, 1(0.7%) of respondents use the first loan to pay old debt, 3(2%) respondents said that they used for construction and 17(11.3%) of respondents reported that they used the first loan for other things such as to solve serious problems, to send their children in abroad and the like. Poor people have various motives in utilizing microfinance services. However, many factors inhibit access of the poor to formal finance, such as low levels of education, income, and assets.

Table 4:8 . Skill level of MFIs clients is low

		Frequency	Percent	Valid	Cumulative Percent
Valid	strongly disagree	4	8.5	8.9	8.9
	disagree	10	21.3	22.2	31.1
	no opinion	8	17.0	17.8	48.9
	agree	20	42.6	44.4	93.3
	strongly agree	3	6.4	6.7	100.0
	Total	45	95.7	100.0	
Missing	System	2	4.3		
Total		47	100.0		

Source (Survey questioner, 2021)

Loans are used in Consumption not invested

MFIS give loans for investment not consumption purpose but the client did the revers. Then 40.4 % of the respondent disagree the questioner. 4.3 % of the respondent they did not answer the questions.

According to various studies, most borrowers spend their money for personal problems solving propose instead of using their loans to improve the work. As a result, they will not be able to repay the loan for a long time and will not make any difference to the other life.

Table 9 Loans are used in Consumption not invested

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	9	19.1	20.0	20.0
	disagree	19	40.4	42.2	62.2
	no opinion	9	19.1	20.0	82.2
	agree	7	14.9	15.6	97.8
	strong agree	1	2.1	2.2	100.0
	Total	45	95.7	100.0	
Missing	System	2	4.3		
Total		47	100.0		

Source (Survey questioner, 2021)

Government regulations are the major challenge of Microfinance institutions

Other Additional Questions the respondent answered. Government regulations are the major challenge of Microfinance institutions 55.3 % of the respondent say didn't affect MFIS because the rule and regulations are necessary for guiding the MFIS without rule nothing do the activity. Other study conclude government regulation support the same as this study. So MFIs transforming themselves into formal financial institutions, and a shift in the nature and degree of government involvement. Governments can encourage sustainable, market-based microfinance by eliminating unfair competition from public institutions, undertaking regulatory reform and improving the business environment.

Table 10 Government regulations are the major challenge of Microfinance institutions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	16	34.0	36.4	36.4
	No	26	55.3	59.1	95.5
	If your answer is yes, how government regulations affect MFIs operation	2	4.3	4.5	100.0
	Total	44	93.6	100.0	
Missing	System	3	6.4		
Total		47	100.0		

Source (Survey questioner, 2021

Does the political interference affect Micro finance institutes

48.9 % of the respondent answer does the political interference affect Micro finance institutes say yes, the respondent gave the reason for example for political propose giving loan for youth government force the institutions beside to this the borrower of the youth not willing to repay the loan and there is no good political situation loan disbursement decline and also saving mobilization reduce and then market of the business fail. But 6.4 % of the respondent they were missing the question.

Muhammad Yunus himself reported that as the borrowers improved their self-esteem they were ready and willing to express their opinions (Yunus, 2003). The borrowers felt an increased sense of political awareness and participation; could this apply to other microfinance organizations as well.

Political interference, Government interference in governance or management of private institutions can threaten their sustainable development. Such interference can force managers to lend to unfit clients or lower interest rates, ultimately decreasing the number of poor who access services.

Table4: 11 Does the political interference affect Micro finance institutes

Characteristics		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	1	2.1	2.3	2.3
	yes	23	48.9	52.3	54.5
	no	20	42.6	45.5	100.0
	Total	44	93.6	100	
Missing	System	3	6.4		
Total		47	100		

Source (Survey questioner, 2021)

AdCSI micro finance institution face different challenges that means the internal, external and political challenges .most of the respondent answers in different direction but in this research paper investigate the mean and the standard deviation how to measure the risk of the institutions affected by different challenged .so the standard deviation slightly changed that means AdCSI institution it has challenges but doesn't give for risk, but government and political challenges the major problem of the institute. In addition to this the mean it has different results increasing the mean the micro finance institutions have slightly less challenge. On the other hand decreases mean results the government intervention and political domination and internal and external challenges are increased. Because of this AdCSI more challenged by government intervention and politics.

Descriptive Statistics

It is a measure of the average distance between the values of the data in the set and the mean. A low standard deviation indicates that the data points tend to be very close to the mean; a high standard deviation indicates that the data points are spread out over a large range of values. Standard deviation (SD) is a widely used measurement of variability used in statistics. It shows how much variation there is from the average (mean).

Table 12 Descriptive Statistics

	N	Mean	Std. Deviation
Addis saving and credit institution has adequate credit policy and procedure to guide its operation	47	3.98	1.011
Addis saving and credit institution has adequate credit policy and procedure to guide its operation	46	4.02	.977
There is organized financial projections and budgeting practice	47	3.57	.972
There is sound and transparent financial management system	47	3.34	.984
Sufficient Training is Available for Staff Related to their duties and responsibilities	47	2.77	1.088
There is attractive HRM practice for Staff Retention including Compensation and Working Environment	47	2.51	.997
There is transparent Recruitment and Selection Procedure	45	2.60	1.095

There is clear and transparent operation decision which doesn't tolerate corruption	46	3.13	1.046
The assignment of staff is on merit and professional relevance	45	2.96	.952
There is regular Monitoring and Follow-Up of Clients	42	3.33	1.141
Addis saving and credit institution has modern transactional database	46	2.22	.987
NBE Requirements are Minimal on Registration and Licensing	46	3.63	.951
Rules, regulation and directive issued by the NBE are bottlenecks for MFI operations	46	3.17	1.122
NBE has strong policy and procedure to mitigate credit and operational risk of MFIs	46	3.67	.920
MFIs can raise sufficient funds to meet the credit service requirement to their client	46	3.43	1.025
MFIs rely on financial source from NGO's and Government to lend to their client.	44	3.23	1.075
Government is giving importance To Micro finance	44	3.84	.914
MFIs can get well trained staff from the market	45	3.36	1.026
Loans are used in Consumption not invested	45	2.38	1.051
Skill level of MFIs clients is low	45	3.18	1.134
Government regulations are the major challenge of Microfinance institutions	44	1.68	.561
Does the political interference affect Micro finance institutes	44	1.43	.545

Source (Survey questioner, 2021)

The researcher interviewed the Addis Credit and saving institution sh.co Marketing and Communication Directorate, and first The Researcher asked her to explain the main purpose of the institution, and she explained that the answers.

Addis Credit and saving is an institution that has been established with a social mission to alleviate unemployment and poverty reduction in the country in a sustainable way However, the institution faces various challenges in providing its services to the society.

Addis Credit and saving is an institution it has different problems. For example Lack of modern data management problem, Lack of coordination with stakeholders, Inability to provide fast efficient and quality service.

The fact that regular banks start lending to small businesses and collecting small savings (e.g. box savings) makes it difficult to compete, With the expansion of the regular banks and unable the institution's to pay competitive salaries and benefits like the banks the number of skilled manpower turnover is increasing, Lack of skilled manpower in microfinance sector, Weakness in building and promoting the image of the institution, High demand for credit is increasing due to rising of inflation, but the institution's lending capacity is limited.

When The Researcher asked the director what the institution was doing to solve the problems, she said:

The company has acquired a core banking system to modernize its service delivery and improve its data management system. The institution is on the way to fulfill all Inputs to start the service so that all offices are networked and any client can be accessed the service at any office.

It is studying the structure, salary and benefits that will make it competitive with the institutions engaged in the sector in order to reduce turnover of skilled manpower and make them competitive. She further informed me that they have started setting up human resource development departments to provide tailor-made training.

In order to provide information on their data management system. All branch offices of the institution are being provided computer inputs and trained their staffs.

Due to the growing demand for credit are constantly increased, the institution capital is growing periodically in order to satisfy the client needs. As a result the lending capacity is increased. Strengthening the coordination process with stakeholders especially related to job creation, signing a document, discussing the institution's plans, reports, policies and procedures and making them aware of in order to play their role.

In order to build good image of the institution, re-branding ,giving special attention and reorganize the department, holistic re-form of the organization is underway to implement at all level of the institution.

Different study Assessment will be made for portfolio quality or loan repayment and its challenges to know the effectiveness and its viability in Addis Ababa MFIs (Yigrem, 2010). Efficiency can also measure by cost per borrower and a cost per meanwhile productivity is often measured in terms of a borrower per staff members (Lafourcade, 2005).

According to Wolday (2005, Review of MFI in Ethiopia), the success of microfinance activities in Ethiopia depends on good governance in improving the social performance. Most clients' income depends on agricultural products that affect the performance of the microfinance institution because of the fluctuations of product prices that are difficult to predict. The governance should ensure consistency between various aspects of its social activities by analyzing the strength and weaknesses of institutions.

Chapter Five

Summary of Findings, Conclusion and Recommendation

Summary of findings

The previous chapters provide information about microfinance institution service about for challenges of micro finance institution the case study of ADCSI. The primary and secondary data collected, data presented and data analyzed based the statistical analysis. Hence, based on data analysis the findings of this study are summarized as follow. Addis saving and credit institution has adequate credit policy and procedure to guide and facilitate the institutions. AdCSI micro finance institutions under control of NBE.the government doesn't permit the AdCSI without guide line doesn't run the institution work. Because of this AdCSI it has Owen financial projection and budget year to year will facilitate the activity of the institute.

Staff training is available of capacity building of all AdCSI employee's .because modern service will give for Clint's, proper managing the institute property and resources. For this case most respondents indicate that main problem of the institution it doesn't give staffs capacity building trainings frequently.

One of internal challenges of AdCSI HR Office it has Owen problems the study shows that internal problems of the staff recruitment processes and procedure are not transparent and clear for all staffs members**.**

Management department doesn't give fast and final decision for some problems in the institutions. Majority of the respondent they didn't know the management decision for problem solving process for example corruption case, theft and other internal problems of the institutions.

Corruption is an important social and commercial issue in most human societies and one of the challenges of the institutions. These researches have shown how an effective anti-corruption practice can possibly minimize corruption in an organization. However, studies focusing on organization which is relatively successful in managing corruption at employees' level are relatively rare.

The proper licensing and supervision of microfinance institutions and the microfinance sector under NBE is important to ensure the safety and soundness of the microfinance business and transparent requirements for licensing because of this AdCSL registered and licensing by NBE at the time of establishment.

The main activity of the institution is giving some money to peoples for making micro activity and to become an entrepreneur. But People often used funds for consumption rather than entrepreneurial investments this is the major weakness of the Client. The Most respondents clearly explained AdCSL doesn't agree with the creditor for consuming the loan to personal use.

CONCLUSION

Microfinance has been generally accepted as a viable opportunity for poverty reduction, Creation of income production activities or employment creations, Encouragement of new business are the major activates of MFIS. This study examined empirical evidences of challenges of micro finance institute the case of AdCSI in Addis Ababa Arada sub city and head office staffs analyzed through primary and secondary data. According to the result of study the lending capacity of the institute limited capacity of money or it has shortage of funds because of this doesn't full fill the creditors' need. AdCSI staff needs training time to time because the customer need good service and it solve the institutions skilled manpower problems.

The paying capacity of the institution is according to different financial institution is not good because of this there is frequently happened high staff turnover, Government and the city administration ordered with out the policy and regulation of AdCSI by force to give loan different associations against the financial industry, AdCSI influenced by Government with recruitment process in order to accomplish his political and ethnic group need, government assigned to lead inefficient directorate boards member to AdCSI. currently all financial institutions they have modern core banking system but AdCSI there is lack of modern financial system, technology and data management the employees most of the time they are working by manual because of this the service is poor and inefficiently.

Recommendation

Microfinance institutes supported these informal microenterprises through microcredit. The microcredit approach to poverty reduction is "the provision of small loans to individuals, usually within groups, as capital investment to enable income generation through self-employment. This study analyzed the major challenges of microfinance institution in the case study of Addis credit and saving micro finance institutions. The challenges of AdCSI are categorized by internal, external and political challenges.

Based on the results of the analysis the following recommendations are given which help AdCSI in service delivery system in order to narrow the gap might exist between micro enterprises and micro financial institutions and so as to increase micro credit amount and also delight them.

- In order to continuously adapt the proposed service proposition to the changes the existing environment, surveys like the one conducted in the study should be performed by AdCSI. Hereby, the management will obtain an up-to-date understanding of the delivery performance, where the internal feedback to the respective employers will guide the implementation of any improvement program.
- According to the service profit chain model the satisfaction of employees/internal customers contributes indirectly for the satisfaction of external customers (Zeithaml and Bitnere,2003).Therefore, the AdCSI should give employees effective training, development skill and give incentive which enable them deliver prompt service to customers.
- The IT department Start modern technology like banks and insurances and other modern institutions it must uses different soft wares and linking with by network head quarter with branches offices to give modern and efficient service activity to customers.
- The higher management section faces government challenge to meet the goal of the institutions and increase the capacity of Loan size should be increased to meet the requirements of borrowers but this should be done very carefully depending on the ability of the client to pay and on the suitability of each project. for example invent money by fund raising activity.
- With all these important considerations in mind, additional recommendations for a successful microfinance program can be made. Since the objective of MFIs is to alleviate

poverty instead of being profit generating institutions, they should lower there interest rate, improve the governance of MFIs, Make the ownership relations clear, Establish a technical advisory board for MFIs, Predatory service providers, Improvement in the infrastructure has a positive impact on the sustainability of the industry because it decreases the cost of MFIs and the clients.

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Appendix

St. Mary University

School of Postgraduate Studies

(Questionnaire filled by employees of Addis saving and Credit institution on Assessment of Challenges of Addis Credit and Saving Institution S. c.)

Dear Respondent,

I am Felasfa Tesfaye, a post graduate student at St. Mary University. This questionnaire is prepared in order to conduct a study for the partial fulfillment of the requirements for the Award of a master's degree in Accounting and Finance at the University. The title of the research work is, "Assessment of Challenges of Addis Credit and Saving Institution S. c'' Hence, to gather information, I kindly request your assistance in responding to the questions listed below. Any information you present will be kept absolutely confidential and will only be used for academic purpose. Your cooperation and prompt response will be highly appreciated.

NB

- Writing your name is not necessary
- Please put **"X"** for your choice in the box

Part I. General background of the employee

1, Sex: Male ☐ Female ☐

2, Age in year: under 25 ☐ 25-34 ☐ 35-44 ☐ 45-50 ☐ and above ☐

3, Number of years working in organization (experience):

Less than 1year ☐ 1-3 years ☐ above 3years ☐

4, Educational background: high school complete ☐ Technical school ☐ graduate

College Diploma ☐ BA/BSC (degree) ☐ Master Degree ☐ PHD ☐

If other please state____

Part II. Questions related to MFI challenges

Please indicate your level of agreement with the statements so that your answers to questions will enable the researcher to assess the challenges of your organization, **Where: 1=strongly disagree; 2=disagree; 3= no opinion; 4=agree; 5=strongly agree.**

Internal challenges	**1**	**2**	**3**	**4**	**5**
Addis saving and credit institution has adequate credit policy and procedure to guide its operation					
Addis saving and credit institution has comprehensive strategy and policy with clear vision and direction					
There is organized financial projections and budgeting practice					
There is sound and transparent financial management system					
Sufficient Training is Available for Staff Related to their duties and responsibilities					
There is attractive HRM practice for Staff Retention including Compensation and Working Environment					

There is transparent Recruitment and Selection Procedure					
There is clear and transparent operation decision which doesn't tolerate corruption					
The assignment of staff is on merit and professional relevance					
There is regular Monitoring and Follow-Up of Clients					
Addis saving and credit institution has modern transactional database					
Political and regulatory related challenges					
NBE Requirements are Minimal on Registration and Licensing					
Rules, regulation and directive issued by the NBE are bottlenecks for MFI operations					
NBE has strong policy and procedure to mitigate credit and operational risk of MFIs					
External challenges					
MFIs can raise sufficient funds to meet the credit service requirement to their client					
MFIs rely on financial source from NGO's and Government to lend to their client.					
Government is giving importance To Micro finance					

MFIs can get well trained staff from the market					
Loans are used in Consumption not invested					
Skill level of MFIs clients is low					

Part III. Additional questions

1. Government regulations are the major challenge of Microfinance institutions?

Yes ☐ NO ☐

If your answer is yes, how government regulations affect MFIs operation?

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2. Does the political interference affect Micro finance institutes?

Yes ☐ No ☐

If your answer is yes, how political interference affect MFIs operation?

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3. In your opinion, what are the major challenges of MFIs?

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Part IV Interview

1. What are the major challenge of Microfinance institutions?

2. Does Government regulations are the major challenge of Microfinance institutions?

3. Why Addis saving and credit institution uses modern database?