ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

CHALLENGES AND PROSPECTS OF MICROFINANCE INSTITUTIONS: THE CASE OF TWO MFIS IN ADDIS ABABA AND OROMIA SPECIAL ZONE

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ACRONYMS & ABBREVIATIONS

ADCSI:	**ADDIS SAVING AND CREDIT INSTITUTION**
IDA:	International Development Agency
MDG:	Millennium Development Goals
MFDR:	Managing for Development Recourses
MTDP:	Market Towns Development Project
MFIs:	Micro Finance Institutions
NGOs:	Non-Government Organizations
NBE:	National Bank of Ethiopia
OCSSCO:	Oromia Credit and Saving Share Company

ABSTRACT

The Ethiopian microfinance sector is characterized by its rapid growth, an aggressive drive to achieve scale. This is due to its significant contribution towards poverty alleviation and overall economic growth through availing financial service to rural and urban poor. The operational and performance aspects of the MFIs in the country are impeded by various economic, social and internal challenges emanating from the micro-finance institutes themselves. The main objective of the study is to assess the challenges and prospects of micro finance institutions. The study is conducted through both quantitative and qualitative methods of research approaches, describing the challenges on ground which affects the operations of micro-finance institutions. Both primary and secondary sources of data which are appropriate for the study were collected from two big Microfinance Institutions currently operating in the country using questionnaire. The study units of the research are two micro-finance institutes operating in Ethiopia. But, the staff and customer proxies were used to identify major challenges in these financial institutes. Accordingly, the set of managers, clerical and non-clerical and customer of these two MFIs was taken as a population of the study. Appropriate sampling designs and techniques were used to draw the population under study. Descriptive method is used to analyze the primary and secondary data collected for this purpose. The major findings in the study are related with challenges which affect the operations of micro-finances from internal, external and economic prospective. In general terms, the limited source of funds, ineffective and inefficient resource mobilization aggravated by weak human resource management practices are the major challenges hindering the institutions. In the same token, it is recommended that MFIs require financial inclusion products enabled with technology and fairly managed human resources for successful journey ahead. The regional state governments and many local NGOs are shareholders in these MFIs.

Key Words: *Microfinance Institutes, Challenges, Prospects*

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Microfinance institutions have evolved since the late 1990s as an economic development tool intended to benefit low income people. Lidgerwood (1999) points out that the goals of microfinance institutions as development organizations are to service the financial needs of un- served or underserved markets as a means of meeting development objectives such as to create employment, reduce poverty, help existing business grow or diversify their activities, empower women or other disadvantaged population groups, and encourage the development of new business. In short, microfinance institutions have been expected to reduce poverty, which is considered as the most important development objective (World Bank, 2000).

However, the positive impacts of microfinance institutions on the socio-economic welfare of the poor can only be sustained if the institutions can achieve a good financial and outreach performance. Throughout the world, financial sustainability of microfinance e institutions has been one of the issues that have recently captured the attention of many researchers due to its importance in the livelihood of microfinance institutions. The financial sustainability of microfinance institutions is a necessary condition for institutional sustainability (Hollis &Sweetman, 1998). As it has been argued "unsustainable MFIs might help the poor now, but they will not help the poor in the future because the MFIs will be gone" (Schreiner, 2000, p.425).

Moreover, it has been reported that it may better not to have MFIs than having unsustainable ones (Ganka, 2010). This shows how indispensable the sustainability of MFIs is, and studying factors that affecting MFIs and how MFIs can become financially strong and becomes imperative. Hence, this study is designed to determine the factors affecting the MFIs in Ethiopia where the level of poverty is wide and deep. Provided the incidence of poverty, financing is seen as crucial in achieving the poverty reduction goal. As Ganka (2010) states the microfinance paradigms focus on reduction of income poverty through improving access to finance and financial services. However, an enduring problem facing microfinance institutions is how to attain financial health in this segment (Dunford, 2003). This problem has attracted the attention in Ethiopia, as to what are the factors putting negative pressure on the health of sustainable performance of MFIs. The first step, therefore, in doing this is to understand the challenges affecting their financial and operational activities. Several studies have also been conducted, as well, to determine challenges affecting the MFIs using large and well developed MFIs in various countries. The level of significant of these challenges in affecting continuous wellbeing in the current and future performance ofMFIs, however, varies with studies. Some of the challenges are found to be significant in one economy or applicable to a set of MFIs, some are not significant (Christen *et al*.,& 1995 Cull *et al.*, 2007). There are several such incidents in Ethiopia, in particular related to the Oromia Credit & Saving Share Company (OCSSO) and Addis Credit and Saving Institutions (ADCSI). The challenges can be grouped within one of the following areas, limited liquidity to satisfy credit services, factors of macro-economic variables related to inflation and unemployment, multiple borrowing by customers, staff turnover, lack of state-of- the art technology and inefficiency in customer service. This study, therefore, investigates empirically challenges affecting MFIs in Addis Ababa and Oromia Special Zone, and gets started to fill this knowledge gap after having the various statistical manipulations empirically on these challenges.

1.2 **The Background of the Organizations**

- **Oromia Credit and Saving Share company(OCSSCO)**

One of the MFI so established is Oromia Credit and Saving Share Co. (OCSSCO for short) which is operating in the Oromia Regional State of Ethiopia. It was originally established as Oromo Self Help Organization (OSHO) in 1996 to deliver credit and mobilize savings in rural Oromia. Soon it was transformed into OCSSCO and got registered in 1997 as per proclamation No 40/1996. The general objective of OCSSCO is to alleviate poverty and promote economic development through provision of credit and saving services. At its establishment, the authorized capital is Birr **60.00** million and Birr **20.00** million was subscribed while the paid up capital was Birr **5.00** million.

Currently, the authorized capital is Birr **200.00**millionandthe paid up capital is Birr **120.00** million. The specific objectives of OCSSCO include: achieving household level food security in Oromia, increasing household income, and improving the overall economic and social conditions of rural households. Accordingly, OCSSCO has been offering the following financial services;

Credit service: The Company provides credit to the rural and urban poor people in the region. Individual and Group Loans such as general business, hotel, building, domestic trade and other business and personal credit services – etc.

Savings service: The Company provides two types of saving services, namely, compulsory Group and Monthly savings and voluntary savings such as pass book, fixed time deposit, *Handhura* and *Sorema* medium and long term contractual savings.

Credit Life Insurance: This service is designed to assist the families of loan clients, group and center members in the case of death of the borrowing clients by settling the outstanding loan amount of the deceased client.

Local Money Transfer: the Company had engaged in local money transfer in 2010 in order to provide money circulation services especially for rural communities those who have no access to conventional financial services.

Mobile (M-Birr) and Agent Banking Service: transferring money on any mobile apparatus which is specially designed for population segment with limited or illiterate to the operation of internet.

Fund Management Service and different types of payments: such as salary, retirement pension service, including perdiem for different trainings, workshop etc.

Regarding the program norms, OCSSCO's average loan size for the first loan is Birr 1000. A client obtains the next higher loan after the successful repayment of the first loan. Loan terms of OCSSCO are established at different levels for different activities with a maximum loan period of one year. To ensure the viability and sustainability of its operations OCSSCO charges an average of 12.5% per annum on its loan amount and interest will be paid on declining balance. On the other hand OCSSCO pays 8% interest on the amount saved by its clients. OCSSCO is currently operational only in 29 districts of Oromia. As of June 30, 2016, the Company has attained the following; service outlets grown from 4 service outlets as of its very beginning (1997) to 316 full-fledged branches, from 1,529 solidarity group based loan borrowers to nearly 728 thousand active clients with total outstanding loans to Birr 3.4 billion as of June 30, 2016. On the other hand, Saving mobilization from Birr 1.1 billion to Birr 2,4 billion. Staff increased from it was less than 20 to 4,547, as of June 30, 2016 and others. The so far development efforts that the Company has been exerted in the regional development endeavors and its impact on poverty reduction, especially in creation of self-employment have still put in force it to have continuous growth plan (OCSSO Annual Report June 2016).

Addis Credit and Savings Institution (ADCSI)

Addis Credit and Savings Institution S.C (ADCSI) is a micro finance institution operating primarily in Addis Ababa. Addis Credit and Saving S.C. (ADCSI) is a region-based micro finance institution established to serve people residing in the City of Addis Ababa in January 27th, 2000. ADCSI was legally registered by the National Bank of Ethiopia, according to Proclamation No.40/1996.

ADCSI has an objective to collect deposits and extend credit to rural and urban farmers, and people engaged in other similar activities as well as micro and small scale rural and urban entrepreneurs.ADCSI's mission is to promote micro and small enterprises to alleviate poverty and unemployment prevailing in Addis Ababa city administration territory through provision of sustainable financial and other related service with particular attention to women.

The company renders the following services to its esteemed customers;

Saving Services; is a saving that a loan client as well as non-loan clients is expected to make in order to be eligible for the loan services of the institution. It has the following forms:-

Security saving; saving collected only from loan clients. The client is either expected to deposit 5 % of its loan or deducted from his/her loan.

Monthly savings- loan client are expected to make monthly savings together with their loan repayment.

Condominium prepaid saving - those who are registered for condominium house lots and may face a shortage of the pre-payment in case if they get the chance, will be given a loan if he/she has savings in the institution for this purpose. The client is expected to make regular monthly payment of 1% of its mandatory saving for at least 12 months and the remaining balance of the pre-payment at once.

Voluntary saving

- **Loan Clients** - all clients of the institution can save regularly or in any ways at the institution using the same book given for the loan.
- **Non Loan clients**- anyone can open a saving account in the institution starting from birr 5 and above.
- **Provident fund saving** - any governmental and nongovernmental organization can use this modality to help their employee earn better income. If the employer deposited the money it collects from its employee as a form of provident fund in the institution and if this saving will not reduce its amount for at least a year, and in case one member of the organization is died, in addition to the regular interest calculated in the saving ADCSI will give 1% additional interest to the deceased family for one year based on the amount saved by the deceased one.
- **Box saving** - the institution will provide saving box made of wood to clients who are willing to accept the service. It will focus to those clients who need to save some portion of their daily income and operator on small business.
- **Mobile saving -** ADCSI' staff weekly go to business area and mobile saving from clients and potential clients

Time deposit: a saving which has to be made for at least 3 months. The amount of interest and the period of deposit will be decided according to the agreements of both parties. /depositors and the institution/

Credit Services; ADCSI mainly dedicated on providing credit services to lower class or poor women and households in Addis Ababa and surrounding towns in Oromia Region.

Credit service is classified into micro-loan, consumption loan, agriculture loan, micro-lease loan, short-term loan and housing loan. the tariff and length of the credit service depends on the type of loans and advances the client apply to.

Insurance Service

To support loan clients and their family, ADCSI is providing three types of insurance services:-

- **Life insurance** - if in case the loan client is died because of external factors, the unpaid balance will be covered from his insurance fund. The client has to pay 1% of his loan as premium. This will be applied for only group and individual loans.

- **Business insurance** - this type of insurance is provided to clients who take loan in the form of plc or cooperatives. Business insurance will be applicable only when the insured have lost its property because of accidents beyond his/her control. The insurer has to purchase the business insurance by paying 1% of the loan for one year.

- **Property insurance** - this insurance required from housing loan clients. The insurance service will be applicable in case of damage of the house or death of the loanee. They are required to pay 2% of their balance of loan for one year.

Fund Administration

Third party fund administration service, such as, payment of social security fund for retired government employees, collecting ETV service charge, managing NGOs IGA funds and other related services. The detail agreements will be made between the institution and third party.

Staff Strength, Customer and Branch Network

Addis Credit and Saving Institution has 1,103 employees working in the head quarter and across branches in Addis and surrounding towns in Oromia Special zones. The number of clients of the micro-finance has reached about 423 thousand in all service categories. Clients are served in 17 branches out of which 15 are in Addis Ababa, one in sullulta and one in Sebeta.

1.2. Statement of the Problem

Micro finance institutions play a great role in supporting the economic activities of the rural and urban poor in developing countries. Studies show that African MFIs are important actors in the financial sector, and they are well positioned to grow and reach the millions of potential clients who currently do not have access to mainstream financial services (Lafourcade et al., 2005).Ebisa et al. (2013) found that microfinance institutions are decisive way outs from the vicious circle of poverty particularly for the rural and urban poor, particularly in a country like Ethiopia where many people live barely below the absolute poverty line. The micro financing industry of Ethiopia is escalating in the face of the growing deep concerns for inflation and low interest rate in the microfinance industry affecting the financial health and viability of MFIs.

Many studies which are conducted on microfinance institutions also indicate that, the contribution of these institutions for poverty alleviation is significant. But the institutions face many challenges that inhibit their contribution for the development of the country. Hurissa (2012) identified the challenges of microfinance institutions by conducting research on the selected MFIs in Ethiopia. But the conclusion of his research is conducted in the context of the whole microfinance institutes operating in Ethiopia. The situation can vary from one MFI to another. So it is difficult to use his conclusions for all microfinance institutions since there are economic, cultural and geographic variations which vary across the country.

Though the strengths of the Micro Financing Industry outweigh its weaknesses, there are still big challenges facing the microfinance institutions (Ebisa et al., 2013). This study also concludes that the importance of MFIs is unquestionable. They contribute a lot to support the Ethiopian poor who are out of the formal banking system. The challenges of the Ethiopian microfinance institutions were identified at a country level in this research. The conclusions are also more general and do not show the case of MFIs in Addis Ababa city and surrounding.

According to Amha et al. (2000), the Ethiopian MFIs have many problems related with the regulatory framework in the microfinance industry, limited support to micro and small enterprise development, the activities of NGOs on providing credit as a grant, absence of solid linkages between MFIs and Commercial Banks, lack of fund for loans and an institution to establish microfinance fund and access to soft loans from NGOs, very limited research and innovation in the microfinance industry and other problems also identified on his research findings. The finding of this research was more general and the case of MFIs in Ethiopia. It does not completely cover challenges features in Addis Ababa and surrounding oromia special zone. In addition to this, the findings are outdated. Within these sixteen year period, there may be many policy changes and the situation might be changed. By considering the gaps of different researches conducted on microfinance institutions, this study focused on filling this research gap by focusing on challenges which hurdle the performance and the future prospects of micro-finance institutes, namely Oromia Credit & Saving Share Company (OCSSO) and Addis Credit and Saving Institute in Addis Ababa and the surrounding Oromia Special zones towns with the help of the following guiding basic research questions:

1. What are the major challenges which affect the operational and performance results of MFI from internal, external and regulatory prospective?
2. What are the rationales behind the success and failure of MFIs?
3. What prospects are there ahead for these MFIs?

1.3. **Objective of the Research**

1.3.1 **General Objective**

The general objective of this research lays on identifying challenges which highly hinders the operations and performance of these two micro-finance institutes particularly in Addis Ababa and surrounding area branches from internal, external and regulatory prospective.

1.3.2. **Specific Objectives**

The specific objectives are mainly focused in identifying specific challenges which affects the two MFIs in Addis Ababa and the surrounding towns' vis-à-vis the following aspects

- To identify the internal challenges affecting the operation of MFIs in Ethiopia, specifically these two micro-finance institutes

- To identify challenges originated from institutional regulation and political decisions on the MFI under scrutiny.
- To assess the challenges related with external factors which are out of control of the MFIS in the study.
- Finally, identify future prospective of the micro-finance institutes which are viable to better operations of the organizations under study.

1.4 Significance of the Study

Given the relation between the well-being of the micro-finance sector and the growth of the economy, knowledge of the underlying factors that challenges this financial sector's sustainability is therefore essential not only for the managers of the micro-finances, but also for numerous stakeholders such as the central banks, bankers associations, governments, and other financial authorities. Knowledge of these factors would be useful in helping the regulatory authorities and micro-finance managers formulate future policies aimed at improving the stability of the Ethiopian MFI sector. Apart from contributing to the existing literature on micro-finance operations and to the body of academic knowledge for students of both post and under graduate levels, the study will also identify other areas that need further research for researchers to pursue.

1.5. Scope of the Study

The scope of the study has been limited to identifying the major challenges and prospects of microfinance institutions related to some economic including inflation, growth and unemployment and social variables explaining group behaviors. It is acknowledged that there are other factors that may challenge the operation of micro-finances but not included in this study. The study is limited to data from the two micro-finance and two geographic area namely, Addis Ababa and Oromia special zone due to proximity and close observations of staff and customers.

1.6 Limitation of the Study

The study is limited to some descriptive nature of study and analysis methods are more of to explain existing situation in the industry with simple statistical manipulations like frequencies on categorical data. To go through wide area coverage and multiple variables of study require huge budget and manpower. Therefore, the study is limited to some dimensions of variables of challenges of the micro-finance institutes as well as analysis methods mainly descriptive in nature.

1.8. Organization of the Study

The thesis is organized as follows. Chapter 1 which is introduction of the work presents the background of the study, the research question, and objectives of the study, justification, scope and limitation of the study. Chapter 2 reviews the various literatures on challenges of micro-finance institutions that are relevant for the study. Chapter 3 looks at the research methodology and Key variables of the study are also defined. Chapter 4 presents analyzes and discusses the results. The final chapter presents the summary of findings, recommendation and conclusion are presented. In this chapter, the researcher presents the findings of the study and its attendant implications and suggests the direction for future research.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Theoretical Literature

2.1.1 What is Microfinance?

Microfinance is the supply of loans, savings, money transfers, insurance, and other financial services to low-income people. Microfinance institutions (MFIs) —which encompass a wide range of providers that vary in legal structure, mission, and methodology offer these financial services to clients who do not have access to mainstream banks or other formal financial service providers (Lafourcade et al., 2005). Similarly, Parker et al. (2000) defines microfinance as provision of small loans (called "micro-credit") or savings services for people excluded from the formal banking system.

Microfinance is a type of banking service which provides access to financial and non-financial services to low income or unemployed people. Microfinance is a powerful tool to self-empower the poor people especially women at world level and especially in developing countries (Noreen, 2011). While Steel and Addah (2004) describe micro finance as small financial transactions with low income household and micro enterprises, using nonstandard methodologies such as character-based lending, group guarantees and short term loans.

The definitions of microfinance given by different scholars contain some similar pointes. They describe microfinance as provision of a small amount of loan for the poor, specifically the rural poor living in developing country. Some microfinance institutions provide non-financial services for their clients. But in our case, most of the micro finances are known by the provision of a small amount of credit and saving services.

2.1.2 History of Microfinance

Bornstein (1996) cited in (Zeller and Meyer, 2002) stated that Professor Mohammad Yunus, a Bangladesh, addressed the banking problem faced by poor villagers in southern Bangladesh through a program of action research. With his graduate students at Chittagong University, he designed an experimental credit program to serve the villagers. The program spread rapidly to hundreds of villages. Through a special experimental relationship with local commercial banks, he disbursed and recovered thousands of loans, but the bankers refused to take over the project at the end of the pilot phase. They feared it was too expensive and risky in spite of its success (Zeller and Meyer, 2002). When we see the condition of most microfinance clients, giving loans for them seems risky. Because getting the money back from the borrower needs special follow up and also the absence of collateral for lending aggravate the fear.

A Contrast of Grameen Bank to a Traditional Bank

The Grameen bank differs from that of traditional banks in so many ways. According to Hassan (2002) the Grameen diverges from traditional banking in the selection of the clientele that it has chosen to serve, in the methods it employs to serve this clientele and in the products that it offers to this clientele. Accordingly Grameen has chosen to serve the ‘‘poorest of the poor’ ’ in rural Bangladesh and has targeted women, believing that they are the most needy of the poor. Through its lending and social policies, Grameen intends to permanently elevate these poor to an acceptable level within their society. Women are among the most vulnerable group of the society in Ethiopia. Most of the clients of MFIs are women. This shows the idea of Grameen bank is shared by many micro finance institutions. In addition to this, Grameen differs from traditional banks in the value of the principal amounts and types of the loans it offers, the terms of its loans, the repayment conditions of its loans, its lending procedures and in the overall social consciousness and guidance that it incorporates in its loan policies. Grameen is attempting to reach a very large population of uneducated, rural poor. Much of this population rarely, if ever, dealt with the Bangladesh Take currency, but lived in a barter society. Grameen could not expect these people to come to the bank, as traditional banks expect, but was required to deliver the bank to the people (Hassan, 2002).

2.1.3 Microfinance Institutions in Ethiopia

The development of microfinance institutions in Ethiopia is a recent phenomenon. The proclamation, which provides for the establishment of microfinance institutions, was issued in July 1996. Since then, various microfinance institutions have legally been registered and started delivering microfinance services (Wolday, 2000). The number of micro finance institutions as well as the number of clients is increasing from time to time. The existing political and economic condition of the country contributes a lot for the development of the microfinance industry. According to Getaneh (2005) the Licensing and Supervision of Microfinance Institution Proclamation of the government encouraged the spread of Microfinance Institutions (MFIs) in both rural and urban areas as it authorized them, among other things, to legally accept deposits from the general public (hence diversify sources of funds), to draw and accept drafts, and to manage funds for the micro financing business. In this case some MFIs have strong capacity to serve a large number of clients by using their financial and geographical advantage. These two institutions take more than 50% of the market share. This means they are reaching and serving many poor in their areas. On the other hand, poverty is the main challenge and a fundamental issue of economic development in Ethiopia. The solutions to poverty are multifaceted as are its causes. Many argue that an inadequate supply of credit can affect production negatively. Alleviation of poverty and promotion of economic development can therefore be facilitated through providing credit to the poor. As tried to point out earlier the formal financial sector has failed to reach the majority of the rural as well as urban poor. This has forced the poor to turn to the informal and semi-formal financial sources.

However, credit from such sources is not only inadequate, but also exploitative and costly. Although provision of credit to rural agricultural household for purchase of agricultural inputs and tools has since long been practiced in Ethiopia, credit schemes targeted at the urban or rural poor were non-existent until recently. Since the 1970s however some NGOs have been providing credit to poor households in some parts of the country, side by side with activities like delivering relief and development services (Mengistu, 1997: MFDR, 2001).

Wide scale micro financing begun in 1990, following the credit agreement signed between the Ethiopian government and the IDA. The credit program was an urban micro financing scheme that aimed at financing the Market Towns Development Project (MTDP), whose actual operation begun in 1994 (Mengistu, 1997).

Since micro-credit delivery and saving mobilization in Ethiopia are being carried out by NGOs, government departments, co-operatives and others in a fragmented and inconsistent way, the government took the initiative to establish a regulatory framework in order to facilitate sound development of the micro finance industry. Accordingly proclamation No. 40/1996 was enacted to provide for the licensing and supervision of the business of micro financing by empowering the NBE to license and supervise them (MFDR, 2000). This time, there are more than thirty five MFIs have been licensed by the NBE and started delivering micro finance services since the issuance of this proclamation. These MFIs aim at poverty alleviation through targeting specific groups (reaching the poor) and group based lending. In a short period of time the MFIs have managed to reach a sizable portion of the rural and urban poor, and in so doing have gained significant experience (MFDR, 2000).

2.1.4 The Need for Microfinance

Microfinance institutions play many roles in the development process. The need for microfinance is also increasing in many countries. According to (Parker et al., 2000), in the right environments, microfinance can accomplish many roles such as financer people's economic choices, diversifying household income, making household less vulnerable to downturn in the economy or personal, smoothening income flows of the household, improve quality of life throughout the year and strengthen the economic position of women so that they can take greater control of decisions and events in their lives. In addition to this MF contributes in the process of household asset building. It also provides savings service, allowing poor households to accumulate safe, but flexible cash accounts to draw on when needed.

Microfinance services lead to women empowerment by positively influencing women's decision making power at household level and their overall socioeconomic status. By the end of 2000, microfinance services had reached over 79 million of the poorest of the world. As such microfinance has the potential to make a significant contribution to gender equality and promote sustainable livelihood and better working condition for women (Noreen, 2011).

According to United Nations Millennium Development Goal (MDGs) microfinance is a strategy to change the life of the poor people in terms of generating revenue to cover the necessary cost and institutions meet the demand (United Nation, 2011). Micro finances support the process of development by changing the situation of the poor through facilitating different services which are necessary for poor.

2.1.5 Performance Measurement of MFIs

According to Basu&Woller (2004) cited in (Wale, 2009), two different perspective on which the MF performance is to be measured has created two opposing but having the same goals school of thought about the industry. The first one are called welfarists and the second one institutionist. Welfarists argue that MFIs can achieve sustainability without achieving financial sustainability. They contend that donations serve as a form of equity and as such donors can be viewed as social 65`nvestors. Unlike private investors who purchase equity in publicly traded firm, social investors don't expect to earn monetary returns. Instead, these donor investors realize a social (intrinsic) return. Welfarists tend to emphasize poverty alleviation, place relatively greater weight on depth of outreach relative to the breadth of outreach and gauge institutional success according to social metrics(Congo, 2002). This is not to say that neither breadth of outreach nor financial metrics matter. Welfarists feel these issues are important, but they are less willing than institutions to sacrifice depth of outreach to achieve them. On the contrary, institutions argue that unless we build sustainable MFI that are capable of running independent of subsidies the promise of MFI of eradicating world poverty will not be met(Woller, Dunfield, and Woodworth, 1999). They argue that sustainable MFI helps to expand outreach and reach more poor people.

Hence, even if the two schools of thought seem contradictory, they are actually not. Their goal is eradicating poverty. Their difference lies on how to go about it. Welfarists say we have to target the very poor and profitability shall be secondary. They prefer to charge subsidized and low interest rates by relying on donor funds. Institutions argues donor funds are unreliable and MFIs must by themselves generate enough revenues to reach more poor people in the future. They favor marginally poor customer. They charge higher interest rates and focus on efficiency of MFIs to generate profit and reach more poor. The debate between the two schools of thought is endless and today many players in the MFI industry use both the welfareists and instututionist perspective to assess the performance of MFIs (Wale, 2009).

2.1.6 Challenges of Microfinance Institutions

Most microfinance programs are small and vulnerable to resource constraints. Most operate in a few locations and serve specific clusters of clients, so they are exposed to the systematic risks of undiversified loan portfolios. Most mobilize few savings and not financially self-sufficient, so they are dependent on the whims of donors and government for their future existence (MEYER, 2002). Microfinance institutions may face financial problems which affect their performance. When the customer of the institutions increases the required money for loan disbursement also increase. On the other hand, when the operational areas of the institutions is limited (less outreach), it is difficult to be profitable.

2.1.7 Factors Affecting the Performance of MFIs

Huang (2005) cited in (Vanroose, 2008) distinguishes three groups of factors: policy, geographical and institutional factors.

Policy Factors:

There are different macro-economic factors related to MFIs. The first factor is the income level. Westley (2005) cited in (Vanroose, 2008) states that regions with higher levels of income have less developed microfinance sectors. He provides two reasons. Firstly, micro-entrepreneurs with higher incomes have more opportunities to self-finance through savings. Secondly, they may benefit more easily from informal finance through family and friends, as well as from formal finance. Similarly, Schreiner and Colombet (2001) argue that one of the reasons why microfinance in Argentina has not developed is due to the higher wages people earn. Traditionally, microfinance also focuses on the poor excluded clients, so microfinance should be reaching more clients in regions that are poor. The other factor is economic instability of the country. Microfinance is more developed in countries that have relatively in stable economies. The international donor community has historically played an important role in subsidizing the emergence and further development of microfinance programs.(Vanroose, 2008) stated that, as most institutions started as non-governmental organizations, external financial intervention was needed.

Geographic Variables:

`Stieg and Weiss (1981) cited in (Vanroose, 2008) stated that transaction and information costs influence financial development. In some cases, they lead to market failures. Good interconnectivity between regions, the availability of electricity, communications and sanitation networks lower these costs. A high population density also helps. According to Sriram and Kumar (2005) cited in (Vanroose, 2008) two contradictory arguments could be made. The first is that formal financial institutions may be more developed in regions with higher population density and good regional interconnectivity. Thus the need for specific MFIs may not be present. The second is that, if the development of the two sectors is complementary, these factors could eventually also stimulate the development of the microfinance sector. Hulme and Moore (2006) cited in (Vanroose, 2008) also support the hypothesis that microfinance tends to develop much faster in densely populated areas.

Institutional Variables:

Institutions play an important role in the development process of a country. One institution that is often mentioned in the microfinance literature is the educational system. The role of human capital in financial sector development is widely recognized (Vanroose, 2008). Paulson (2002) cited in (Vanroose, 2008) finds that regions with higher levels of education have more developed financial systems. Guiso et al. (2004) cited in (Vanroose, 2008) also find positive effects of social capital in financial sectors.

2.2 Empirical Literature Review

Many studies were conducted on the issue related to microfinance institutions performance, challenges their impact on the economic and social condition of the rural poor. The study conducted by Ebisa et al. (2012), shows that the mean amount of loans extended by 30 microfinance institutions in the country is 2.2938, whereas the mean borrowing customers equal an amount of 8.2434. As it is indicated in this study the R square value is 0.913 implying that 91.3% of the variations in the amount of loans extended by 30 microfinance institutions in the country are explained by the number of borrowing clients. On the other hand, the Pearson correlation indicates strong positive linear relationships between number of borrowing clients and amount of loans extended. The total number of active borrowing clients of the microfinance institutions in Ethiopia reached over 2.4 million customers in 2016 whereas the total credit extended by all microfinance institutions amounted to Birr 6.9 billion. Of the total credit granted, the share of the three largest Microfinance institutions is Birr 5.1 billion. The market shares based on the number of borrowing clients are 28.1, 16.1 and 20.4% forAmhara Credit and Saving Inst (ACSI), Dedebit Credit and Savings Inst (DECSI) and Oromia Credit and Savings (OCSSCO), respectively.

Lack of skilled personnel is the common problem in Ethiopian Microfinance Institutions. This situation is more exacerbated by high turnover of experienced personnel either for the need for better jobs or hate to work in rural areas with minimal facilities provided as compared to urban areas which offer better living conditions. There is also a problem of using modern core finance technologies for many of MFIs specially those microfinance institutions operating in remote rural areas having poor infrastructure development. As a result, there are problems of non-standardized reporting and performance monitoring system. On the other hand, MFIs face challenges of obtaining loans in the existing financial market, particularly from banks, which hampers strive for addressing various needs of clients. There is an illegal way of doing the micro financing business from the side of the government, NGOs and other agencies which continue to provide uncollectible loans by violating the proclamations ratified by the House of People's Representatives. Apart from this, there are deep concerns within the microfinance sector about the growing issue of inflation on the profitability of MFIs, and the ability to maintain low interest rates (Ebisa et al., 2013).Apart from issues discussed above, Fikadu (2007) identified the following challenges in the MFI which hinder the overall healthy operation of the sector. These are;

- Limited outreach particularly for women
- Lack of adequate whole sale funding possibilities
- Operating and financing expenses are high Illegal government and NGO operations which spoiled the market.
- High turnover of MFI staff consequently deteriorating the skills based in the industry
- Lack of knowledge about microfinance services
- Weak governance and management capacities for further Developments
- Limited financial products unable to address the various needs of clients
- Lack of standardized reporting and performance monitoring system

2.3 Conceptual Framework

The performance of Microfinance Institutions can be affected by different internal and external factors. Studies indicated the success or failure of the institutions is directly or indirectly related to different factors. Institutional, social, economic as well as environmental factors play a great role on the performance of the institutions (Pearce et al, 2011). Institutional factors related to the financial capacity, the capacity of the institutions to serve their clients, the use of different cost effective and efficient technologies in the institution and other related issues. Social factors on the other hand are related to the conditions of the clients. Social factors include the tradition, saving habit of the people, the existence of other means for borrowing in the community and so on (Schreiner et al 2001). In addition to this, Environmental factors such as geographical location of the clients, availability of infrastructure, and others contribute for the performance of the MFIs. Economic factors also have a significant effect on the performance of Microfinance Institutions. For instance, the economic level of the country in which MFIs are operating is directly related to the outreach of the institutions and their sustainability (MEYER, 2002).

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1Research Design

This study has descriptive type of research objective to show the opinion of the managers in MFIs', the employees and their clients to assess the challenges that affect the performance of Microfinance Institutions. To this end, the researcher employed both qualitative and quantitative approaches. Research in such a situation is a function of researchers' insights and impressions. Furthermore, in this study qualitative research approach has been used to assess the opinion of the respondents towards the challenges and prospects of microfinance institutes.. Quantitative approach was used to indicate the frequency and percentage of the responses and to present different secondary data in organized way.

3.2Sampling Frame

The sampling frame is the list of all elements from which the sample is drawn. For this research, the sampling frame is list of OCSSCO and ADCSI branches in Addis Ababa and Oromia special zones, the list of employees working in these branches and list of clients of the branches. The set of sampling unit considered for this study include branches found in the city, their clients and the workers of the branches. This enabled the researcher to obtain primary data from first hand users of MFIs and employees of these institutions.

3.3 Sampling Size

In Addis Ababa and the surrounding Oromia Special Zones towns, the number of OCSSCO branches is only thirteen, whereas that of ADCSI is seventeen. In order to compare different challenges found in different institutions, fifty percent of the branches were included in the sample. By considering the homogeneity of the respondents and to reduce the sample size the researcher applied 10% precision level in the formula. Accordingly, the total number of staffs in OCSSCO and ADCSI are 4,547 and 1,108, respectively. In addition, these two micro-finance institutions have customer base of 735 and 423 thousand, respectively. Therefore, the staff and customer sample sized is calculated adding staff strength and customer base from both MFIs and later segregating the number to these MFIs based on their weight for questionnaire distribution. Accordingly,

$n=N/(1+N(e^2))$

Where n = sample size

e = margin of error

N= Population

Thus, the employees included in the survey questionnaire were 74. The number of respondents taken from each institution was determined by considering the total number of employees in the institutions. Similarly, in order to decide the number of clients to be included in the sample, the researchers employed formula method. As a result, from OCSSCO Microfinance branches, in the towns of Oromia Special Zones and for ADSCI branches in sub-cities are selected. Based on the following formula,

$\boldsymbol{n} =- \boldsymbol{N}/(1 + \boldsymbol{N}(\boldsymbol{e}^2))$

As a result of the calculation above, 199 clients were included in the sample. As in the case of employees, a precision level of 10 % was taken to determine the sample size of the clients.

3.4 Methods of Data Collection

For the purpose of this study, questionnaire and semi-structured interview data collection tools have been used. To gather information from the respondents of the selected sample, the researchers developed questionnaire which containing open and closed-ended questions. The questionnaires were distributed and filled by the researcher himself. The questionnaires have been prepared in English and were translated to Amharic and Affan Oromo languages to make the questionnaire simple for the respondents. To check the clarity of the questionnaire, reliability and validity tests were conducted before distribution of the questionnaires. Three types of questionnaires have been distributed for three target groups of the research. Two of the questionnaires were used to collect data from clients of MFIs and employees of the institutions. The third questionnaire was filled out by managements` of the institutions.

3.5 Data Analysis Method

The outcome of the study is more of descriptive in nature. Therefore, the data analysis method that has been used is descriptive statistics in its nature. Accordingly, primary data were collected from respondents have been tabulated and analyzed using statistical package software for social sciences (SPSS). The results have been summarized using frequencies, percentages, ratios and other central tendency measures to describe the study results.

CHAPTER FOUR
4. RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the results of the study. Among the issues discussed are the socio-demographic characteristics of respondents, micro finance institutions and source of challenge with respect to internal, external and regulation aspects, open ended questions summary collected on free consent of customer and staff of micro finance institutes were compiled, summarized and presented thereof. The implication of variables affecting the operations and existence of micro-finance institutes has been assessed on the basis of respondents' instances. The chapter finally presents the future prospects of micro-finance institution based on customer and MFIs staff views and comments.

4.2 Reliability and validity

Reliability and validity of the research instruments are of great importance in any research. Researchers are expected to properly consider them when designing and judging the quality of a study.

4.2.1 Reliability

Reliability refers to the degree to which measures are free from random error and therefore yield consistent results (Zikmund 1977.) Thus the extent to which any measurement procedure produces consistent results over time and an accurate representation of the total population under study is referred to as reliability. In this research Cronbach's Alpha is a reliability coefficient that indicates how well items in a set are positively correlated to one another (Sekaran,2003).

According to Darren et al. (2001), coefficient alpha is a measure of internal consistency based on the formula;

$$\alpha = rk/(1 + (k - 1)r)$$

Where k is the number of variables in the analysis and r is the mean of inter -item correlation. However the alpha value is inflated by a large number of variables so there is no set interpretation as to what is acceptable. Nevertheless, a rule of thumb that specifies that applies to most situations is given as:

α>.9 - Excellent

α>.8 - Good

α>.7 - Acceptable

α>.6 - Questionable

α>.5 - Poor

α<= .5 - Unacceptable

Table 4.1 Summary of Reliability Test from Employee Responses on Scale Items (Pilot of 41)Employees

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.869	0.943	41

Source: Researcher Computation from SPSS Software on field data (April 2017)

Thus with regard to results from table c above, the Cronbach alpha coefficients of 0.869 obtained from the SPSS computation is considered good and affirms as the instrument is reliable.

3.4.1.2 Validity

Validity On the other hand can be described as the extent to which the instrument measures what it purports to measure. According to Healy et al, (2000), validity determines whether the research truly measures that it was intended to measure. Thus validity measures how truthful the research results are or the extent to which scores truly reflect the underlying variable of interest. Therefore, after design, the questionnaire was given to advisor, supervisors and experts for their comment and suggestions. Repeated corrections and improvements were made on the questionnaire to ensure refinement and content validity.

4.2 Response Rate

A total of 273 respondents were targeted for the survey hence the same number of questionnaires was sent out. However, out of this number, 246 questionnaires were received. Out of 273 total questionnaires, 74 were intended to be filled with staffs of both MFIs with proportion of 40 to Addis Micro Finance and the rest 34 to Oromia Credit and Saving Share Company. Individually, 36 questionnaires out of 40 distributed were filled and returned by ADSCI staff. Similarly, 34 questionnaires were distributed to staffs OCSSCO and 29 properly filled questionnaires were collected. Therefore, staff wise questionnaires, 87.8 and 90.9 percent successful questionnaire collection was attained. On the other hand, 199 questionnaires were distributed to customers of both ADSCI and OCSSCO micro-finance institutes. Individually, 100 questionnaires were distributed to the clients of ADSCI and the rest was delivered to OCSSCO micro-finance institute. when we look at client response rate out of 100 questionnaires to ADSCI 92 properly filled and returned back while 89 were successfully returned from OCSSCO microfinance, which sum-up to 181 questionnaires. Therefore, the overall client response turn out to be 90.9 , considerable successful return rate.

Table 3.2 Questionnaires Distribution and Response Rate

	Addis MFI	OCSSCO	Total	%age of Response
MFIs Staff Distribution	40	34	74	-
MFIs Staff Collection	36	29	65	87.8
Difference	4	5	9	12.2
MFIs Customer Distribution	100	99	199	-
MFIs Customer Collection	92	89	181	90.9
Difference	8	10	18	9.1

Source: Researcher’s data computation

Socio-demographic Characteristics of Respondents

Descriptive statistics such as frequencies and percentages relating to the socio-demographic characteristics of respondents are presented in Table E. More than half of the respondents (59.6%) were males, which is not surprising because most people want to work in the higher level financial institution due to the benefits but the long working hours render the industry problematic for female

Table 4.4 Socio Demographic characteristics of Respondents

Age and Sex combination of Staffs in MFI				
		Sex of Responds		Total
		male	Female	
Age of respond	below 20	0	2	2
	20-39	23	28	51
	40-59	12	0	12
Total		35	30	65
Educational Qualification by Sex category of Staff in MFI				
		sex of respond and		Total
		male	Female	
Educational qualification	Diploma	8	8	16
	Degree	27	22	49
Total		35	30	65
Job Position by Sex Classification				
		sex of respond and		Total
		male	Female	
Job position in the office	Clerical	25	30	55
	non clerical	10	0	10
Total		35	30	65
Salary by Sex Classification				
		sex of respond		Total
		male	Female	
Monthly salary of the employee	$1000-2999	0	2	2
	$3000-4999	11	10	21
	above 5000	24	18	42
Total		35	30	65
Service Year and Sex Classification				
		Sex of respond		Total
		male	Female	
Service year in MFI	1-3	6	6	12
	3-5	12	13	25
	5-10	17	11	28
Total		35	30	65

Source: Researcher's primary data computation

Among the respondents of the questionnaires, 30(46%) are female workers and the rest 35(56%) are male. The relative numbers of female workers in micro-finance institutes are better in its contribution. Therefore, as a role, micro-finance institutes, they are playing on gender cases hiring equivalent number of female workers. Age wise composition of employees reveals that, 78 percent are youngsters working with the micro-finance within the age group of 20-39. Gender wise, 28 (58 %) out of 51 respondents are female youth workers working in the firms. Educational preparation indicates that, 8 are male and female diploma workers, while 27 are male first degree and 22 are first degree female workers, still meaning full educational contribution from female workers in micro-finance institutes.

Regarding job classification, 30 were clerical female workers while lesser number (25) was male clerical staff working in the MFI. The justification is, females operation staff number is almost overtaking male in micro-finance area. Further confirmation is the services years and female category has some sort of correlation.. 13 female workers served for 3-5 years in micro finance compared to 11 men with similar service year. Still, salary and benefit scheme indicates, 18 $3 %) females were in higher salary category of Br 3000 to 5000, which is incredibly good achievement to female staff or workers.

Table 4.5 MFIs and Regulation Related Challenges

		Frequency	Percent	Percent	Cumulative Percent
	Higher	19	11.7	29.2	29.2
	High	29	17.9	44.6	73.8
	No effect	10	6.2	15.4	89.2
	Low	4	2.5	6.2	95.4
	very Low	3	1.9	4.6	100.0
	Total	65	100	100.0	
Total					

Source: Researcher's primary data computation

Table above discloses that, 73.8 staff respondents agreed that, the regulation aspect of the governing body is imposing higher challenges on the operation of micro-finance institutes. On Contrary, only 10 percent have consent on the flexibility of NBE regulations on the operations of micro-finance institutes. This implies that, the majority of the staff understands that regulations as identified source of challenge to growth of MFI though its policy and prudential regulations.

Table 4.6 MFIs internal Capacity Related Challenges

		Frequency	Percent	Percent	Cumulative Percent
	Higher	16	24.6	24.6	24.6
	High	24	36.9	61.5	61.5
	No Effect	10	15.4	76.9	76.9
	Low	15	23.1	100.0	100
	Total	65	100.0		
Total					

Source: Researcher's primary data computation

Similarly, the other source of micro-finance operations and administration challenge arise from internal capacity limitation in micro finance institutions. Of course 61.5 percent agree that the internal capacity challenge have impact on the operation and administrative sects of the micro-finance institutes. Only 23 percent oppose the idea that the internal capacity has no implication of the existence and operation of the micro-finance institution.

Source of MFIs funds

		Frequency	Percent	Percent	Cumulative Percent
	Grand and NGO and other government sources	32	49	49.2	49.2
	Saving mobilization from public	24	37	36.9	86.2
	Source from long term	9	14	13.8	100.0
	Total	65	100	100.0	

Source: Researcher's primary data computation

Critical challenge to the operation of micro-finance institutes comes from limitation of funds to match to lends to their customers. Accordingly, 49 percent agree the source of funds are raised from non-governmental organizations, the other 37 percent believe that the source is from saving deposit mobilization and few like 14 percent from source of long term loans and advances from commercial banks.

Role of Microfinance Institutions

Table 4.7		Frequency	Percent	Percent	Cumulative Percent
	Poverty alleviation and support economic development among poor	32	49	49	49.2
	Profit generation firma and financial investment	16	25	25	73.8
	Government policy instruments and humanitarian tool	17	26	26	100.0
	Total	65	100	100.0	

Source: Researcher's primary data computation

The role micro-finance institutes' play in the society can be expose them to various limitations and challenges in the operations and administrative activities. From 65 staff who filled the questionnaires, 49 percent agree that the role of the micro-finance institutes is to alleviate poverty and economic support to poor segment of the societal. On the other hand, 25 percent agree the role of micro-finance is to make profit and other investment alternatives. Equivalent staff also consent that the micro-finance institutes are instruments for policy implementation by government related to political and humanitarian activities.

Table 4.8 MFIs have credit policy and procedure to guide operation						
		have credit policy and procedure to guide operation				Total
		Strongly Disagree	disagree	Agree	Strongly Agree	
comprehensive strategy and policy with clear vision and direction	Strongly Disagree	5	2	-	-	7
	Disagree	2	8	7	-	17
	Not specific	2	3	4	-	9
	Agree	-	2	24	4	30
	Strongly Agree	-	-	-	2	2
Total		9	15	35	6	65

Source: Researcher's primary data computation

Cross-tabulation between comprehensive strategy and policy existence and policy and procedure to guide operation, only 24 staff agree that the micro-finance institutes have strategy and policy with clear vision and direction as well as credit policy and procedure emanating from generalized strategy of the microfinance institutes. The other 41 has different views either supporting or opposing presence of compressive strategy and related policies and procedure to implement the strategy. This may be either for lack of the strategies or employees are not familiar with the strategies, policies and procedures.

Table 4.9

		Separate accounting system to keep track of operation costs.					Total
		Strongly Disagree	disagree	Not specific	Agree	Strongly Agree	
Have credit policy and procedure to guide operation	Strongly Disagree	5	-	2	2	-	9
	disagree	4	9	-	2	-	15
	Agree	-	9	-	23	-	35
	Strongly Agree	-	-	-	-	6	6
Total		9	18	2	27	6	65

Source: Researcher's primary data computation

Further analysis indicates that the existence of separate operational financial operations accounting systems and management and related policies and procedures to control the operation. In this regard, out of requested 65 staff, 23 agree on availability of separate accounting systems and operation manual to implement it. But considerable number are not aware of the presence of operational systems and related policies and procedures.

Table 4.10 **Accounting Analysing Skill in MFIs**

		Frequency	Percent	Percent	Cumulative Percent
	Strongly Disagree	9	5.5	13.8	13.8
	Disagree	22	13.5	30.8	44.6
	Not specific	10	6.1	15.4	60.0
	Agree	20	12.3	30.8	90.8
	Strongly Agree	4	2.5	6.2	100
Total		65	100.0		

Source: Researcher's primary data computation

The presence of such systems can be proofed by vast skill in operating the system implemented to conduct micro-finance operations. Accordingly, 35 percent disagree staff skill on the system implemented to run operations of the micro-finance institute, which is relatively big numbers, which coincides the finding in the above analysis.

Table 4.11

		organized financial projections and budgeting practice				Total
		Strongly Disagree	disagree	Not specific	Agree	
Sound and transparent financial management system	Strongly Disagree	-	-	3	-	3
	disagree	2	16	3	14	35
	Not specific	-	3	-	4	7
	Agree	2	3	2	9	16
	Strongly Agree	-	4	-	-	4
Total		4	26	8	27	65

Source: Researcher's primary data computation

Again, additional cross-tabulation of sound and transparent management systems in micro-finance institutes and on presence of financial projection and budgeting system reveals that more number (16) indicates the staff disagrees on the presence of strong and sound financial management systems and organizes financial projections and budgeting systems. This is the great challenge for financial firm which requires financial management to lead the firm in proper direction.

Table 4.12 Sufficient Training is Available for Staff Related to Their duties and Responsibilities					
		Frequency	Percent	Percent	Cumulative Percent
	Strongly Disagrees	7	10.8	10.8	10.8
	disagree	17	26.2	26.2	36.9
	Not specific	22	33.8	33.8	70.8
	Agree	19	29.2	29.2	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

Human resource management practices are essential parameters to retain qualified and experienced employees in any sector evolving human involvement. The relationship between human resource practice and microfinance institutes staff views are organized and analyzed. Accordingly, 46 percent of staff of micro-finance institute responded that they do not agree that the firms do not provide relevant operational training to their staff. The magnitude of respondent is close to 50 percent which is high relatively.

Table 4. 13 Attractive HRM practice for Staff Retention including Compensation and Working Environment					
		Frequency	Percent	Percent	Cumulative Percent
	Strongly Disagrees	2	3.1	3.1	3.1
	disagree	28	43.1	43.1	46.2
	Not specific	19	29.2	29.2	75.4
	Agree	16	24.6	24.6	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

The human resource practices other than training are taken into consideration. Compensation and working environment are among others. For similar reason staff in these micro-finance institutes responses were collected. Accordingly, 46 percent were not pleasant with the existing human resource practices in these firms. 24 percent were the only staffs which are satisfied with prevailing human resource practices in the firms.

Table 4.14 Transparent Recruitment and Selection Procedure

		Frequency	Percent	Percent	Cumulative Percent
	Strongly Disagrees	7	10.8	10.8	10.8
	Disagree	35	53.8	53.8	64.6
	Not specific	14	21.5	21.5	86.2
	Agree	7	10.8	10.8	96.9
	Strongly Agree	2	3.1	3.1	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

From the total requested 65 employee almost 86 percent disagree on the issue of fair and transparent recruitment and selection procedure. It is only 14 percent of the staff who agreed with existing recruitment and selection procedure transparency. It appears to be challenge to the operation of microfinance institutes. In related development, 56.9 percent also agree the presence of significant staff turnover in these firms. Therefore, we can observe that there is some sort of challenge in every dimension of human resource practice that stumbles the operations of the organizations.

Table 4.15 Cost of follow-up Appraisal, Utility Salary and Travel are Costly per Transaction

		Frequency	Percent	Percent	Cumulative Percent
	Strongly Disagrees	8	12.3	12.3	12.3
	Disagree	15	23.1	23.1	35.4
	Not specific	7	10.8	10.8	46.2
	Agree	31	47.7	47.7	93.8
	Strongly Agree	2	3.1	3.1	96.9
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

The other dimension of micro-finance institutions challenges is the cost aspect of transactions. Generally, cost of follow-up, appraisal, utility, salary and travel costs and related expenses make cost of transactions sometimes unbearable. 50.8 percent agree that the cost of transactions is high for micro-finance institutions. On the contrary, 35.5 disagree on overhead costs pressure on transactions of these firms. Whatever the case is, the views of larger proportion indicates the expenses altogether have meaningful challenge on the operations of micro-finances.

Table 4.16 Compulsory initial saving

		Frequency	Percent	Percent	Cumulative Percent
	Strongly Disagree	9	13.8	13.8	13.8
	Disagree	16	24.6	24.6	38.5
	Not specific	8	12.3	12.3	50.8
	Agree	32	49.2	49.2	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

The other micro-finance practice assessed in the study is the case of binding saving imposed on customers by micro-finance institution. 50 percent of the respondents agree that the binding saving is a problem in the operations of micro-finance institutes. Therefore, from the very required role of micro-finance institutes, imposing such initial saving may exclude the poor from financial service tailored to them.

Table 4.17 Insufficient Fund for Lending to Customers

		Frequency	Percent	Percent	Cumulative Percent
	Strongly Disagree	7	10.8	10.8	10.8
	Disagree	30	46.2	46.2	56.9
	Not specific	6	9.2	9.2	66.2
	Agree	22	33.8	33.8	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

In sufficient funds are constraints for lending credit services to customers everywhere in the financial industry. But in small scale, the limitation may hurt operations of MFIs. Here, 33 percent agree the limited customer fund is the cause for lending to borrowers and challenges the existence micro-finance at large. On contrary 56 percent do not accept the challenge coming from limited fund.

Good governance and non-corrupted system is something required in financial firms including micro-finance institutes. But what is the present situation related to good governance in MFIs?

Table 4.18 Clear **and transparent operation decision which doesn't tolerate corruption**

		Frequency	Percent	Percent	Cumulative Percent
	Strongly Disagree	7	10.8	10.8	10.8
	Disagree	22	33.8	33.8	44.6
	Not specific	8	12.3	12.3	56.9
	Agree	26	40.0	40.0	96.9
	Strongly Agree	2	3.1	3.1	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

The staff in these two micro-finance institutes has their own view towards good governance and corruption. 44.6 percent of the respondents disagree on the presence of clear and transparent operation decision does not tolerate corruption. On contrary it means, operation decisions are unclear and suspicious.

Table 4.19 Sound Decision Making By Managers With Out Share Holders Intrusion

		Frequency	**Percent**	**Percent**	**Cumulative Percent**
	Strongly Disagree	12	18.5	18.5	18.5
	Disagree	35	53.8	53.8	72.3
	Not specific	6	9.2	9.2	81.5
	Agree	12	18.5	18.5	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

The source of sound decision may arise from freedom of decisions by managers. Accordingly, staff were requested about decisions made by managers and surprisingly 72 percent disagree on the presence of freedom on decision making. It means the decisions are affected by the intrusion of third party in the operations of the MFIs. Only 18.5 percent agree on the issue. Therefore, the decision freedom is a matter of great concern in micro-finance institutes.

Table 4.20 Efficient and effective management system

		Frequency	Percent	Percent	Cumulative Percent
	Strongly Disagree	2	3.1	3.1	3.1
	Disagree	29	44.6	44.6	47.7
	Not Specific	15	23.1	23.1	70.8
	Agree	13	20.0	20.0	90.8
	Strongly Agree	6	9.2	9.2	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

Consequently, the efficiency and effectiveness is questioned and 47.7 percent disagree that the management system is not effective and efficient. Still the finding indicate that 30 percent agree on the efficiency and effectiveness of the management system. But the larger proportion voted against the efficiency and effectiveness of the system, which is still a challenge to the operation of firms.

Table 4.21 The assignment of staff is on merit and professional relevance

		Frequency	Percent	Percent	Cumulative Percent
	strongly disagree	8	12.3	12.3	12.3
	Disagree	20	30.8	30.8	43.1
	not specific	16	24.6	24.6	67.7
	Agree	19	29.2	29.2	96.9
	strongly disagree	2	3.1	3.1	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

The implication is analyzed on staff assignments in the micro-finance institutes. 43.1 percent disagree the staff assignment is not on merit and professional relevance. Rather, it is undertaken by unclear and fruits of corrupted systems. Furthermore, 63. 3 of the staff give consent on the decision making process is not participatory and transparent. The presence of transparent and participatory decision making is supported only by 18.3 staff which is by low less than the opposite views on the issue.

Table 4.22 Regular Monitoring and Follow-Up of Clients (Loan Clients)					
		Frequency	**Percent**	**Percent**	**Cumulative Percent**
	strongly disagree	4	6.2	6.2	6.2
	Disagree	18	27.7	27.7	33.8
	Not specific	18	27.7	27.7	61.5
	Agree	25	38.5	38.5	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

Regular monitoring and evaluation of credit customer require incurring expense both on overheads and staffs salary and related benefits. The micro-finance institutes' staff are asked if the firms follow-up their customer frequently. Accordingly, 33.8 percent disagree with the proposition of regular visits to customers. In addition, some 27 percent of the respondents are neutral in their opinion. This can support the case that microfinance institutes are not frequently following up their customers. The confirmation is that these firm in the one hand do not surely follow-up their customer for a known customer tracking. As evidence asked if the firms visit customers physically, 50 percent of the respondents did not know the physical visiting accomplished by MFIs. The other way 40 percent agree on the issue a value less that staff disagree on the case.

Table 4.23 Information , dbase and reporting system					
		Frequency	Percent	Percent	Cumulative Percent
	strongly disagree	2	3.1	3.1	3.1
	Disagree	39	60.0	60.0	63.1
	not specific	7	10.8	10.8	73.8
	Agree	16	24.6	24.6	98.5
	22	1	1.5	1.5	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

Strong information management, database and reporting system is the feature of strong financial firms for continuous and reliable assessment of the health of financial statues and other relevant decision making areas. Staffs in both firms are asked the presence of reliable information processing, database management and reporting systems. 63 percent deny the case realizing the system of information; database reporting systems are not strong and sound in MFIs. The rest 26.1 percent agree on the issue and testified the presence of reliable information management system. Nevertheless, the greater number is against the issue.

On top of the information management system, the major transactional database instrument in the firms i.e. the core banking is plate form to process every operational transaction and execute reports to each level of information requirement . Accordingly, the staff were requested about the core banking and 58.5 disagree on the issue of the core banking, while the other 33.8 agree the case is true. But it still supports that there is lack of efficient core-banking supported operation system.

Table 4.24 The MFI have modern transactional dbase and core banking system					
		Frequency	Percent	Percent	Cumulative Percent
	strongly disagree	10	15.4	15.4	15.4
	Disagree	28	43.1	43.1	58.5
	not specific	5	7.7	7.7	66.2
	Agree	22	33.8	33.8	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

Financial Reports are essential to the customers and investors of business firms to understand the statues of the firms. Timely and real data and information should be presented to all stakeholders and internal uses too. But the Reponses to staff do not justify the case. 50.8 percent stand against the existence of ready-made financial statements which support the decisions of stack-holders and internal users. On contrary, 18.5 have given consent on the presence of standardized financial reports in their respective firms.

Table 4.25 The owner and customer have an access to regular and standardize reports on performance of MFIs

		Frequency	Percent	Percent	Cumulative Percent
	strongly disagree	6	9.2	9.2	9.2
	Disagree	27	41.5	41.5	50.8
	not specific	19	29.2	29.2	80.0
	Agree	12	18.5	18.5	98.5
	Total	65	100.0	100.0	

Source _primary data computation

Data processing and reporting should be effective and efficient meeting fairly low finances and disclosing present financial dynamics in firms. 50.8 percent answered the process is cheap and
cost efficient process, while the 46. 6 witnessed the data processing and reporting system is cost efficient and timely.

National Bank of Ethiopia (NBE) plays controlling and market regulation roles in financial sector operating in the country. There are directives and regulation guiding the establishment requirement and operation compliance to conduct proper financial business. But sometimes the regulatory body can put some regulatory requirements which are challenging to micro-finance institutes . The same question was given to the respondents and 35.4 percent disagree the easiness of NBE requirements on registration and licensing process. But 60.6 percent agree the minimal requirements and licensing processes are relevant and easy to comply.

Table 4.26 NBE Requirements are Minimal on Registration and Licensing					
		Frequency	Percent	Percent	Cumulative Percent
	strongly disagree	4	6.2	6.2	6.2
	Disagree	19	29.2	29.2	35.4
	not specific	20	30.8	30.8	66.2
	Agree	20	30.8	30.8	96.9
	strongly disagree	2	3.1	3.1	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

National Bank of Ethiopia (NBE) plays controlling and market regulation roles in financial sector operating in the country. There are directives and regulation guiding the establishment requirement and operation compliance to conduct proper financial business. But sometimes the regulatory body can put some regulatory requirements which are challenging to micro-finance institutes . The same question was given to the respondents and 35.4 percent disagree the easiness of NBE requirements on registration and licensing process. But 60.6 percent agree the minimal requirements and licensing processes are relevant and easy to comply

Table 4.27 RULES, REGULATION AND DIRECTIVE ISSUED BY THE NBE ARE BOTTLENECKS FOR MFI OPERATIONS					
		Frequency	Percent	Percent	Cumulative Percent
	strongly disagree	8	12.3	12.3	12.3
	Disagree	14	21.5	21.5	33.8
	not specific	13	20.0	20.0	53.8
	Agree	30	46.2	46.2	100.0
	Total	65	100.0	100.0	

Source: Researcher’s primary data computation

The impact of regulation on financial industry at various periods of time was reflected through imposing restriction by rules, regulations and directives instruments. The effect of these governing body was assessed with question directed to these instruments. The micro-finance institute staffs responses are somehow disclose the difficulty of these instruments. Accordingly, 46.2 percent agree with the bottleneck characteristics to the instruments while the other 33.8 percent disagree on the case realizing these tools are proper and protecting the industry healthy.

Table 4.28 MFIs has strong policy and procedure to mitigate credit and operational risk					
		Frequency	Percent	Percent	Cumulative Percent
	strongly disagree	6	9.2	9.2	9.2
	Disagree	35	53.8	53.8	63.1
	not specific	11	16.9	16.9	80.0
	Agree	13	20.0	20.0	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

Strategies most of the time end up with proper policies and procedures which assists the implementation process. Some of the important policies and procedures are credit related policies. Do micro-finance institutes have proper credit policies and procedures? 63.1 percent disagree with the presence of guiding credit policy and procedure in the firms. The implication is the credit operation of these firms is exposed to credit risks which are great challenges to the whole operation of micro-finance institutes. On contrary, 20 percent support the existence of sound and reliable credit policy and procedure which guide loans and advances provisions and lessens the credit risks of these financial firms. But, the proportion of those respondents disagree with presence of credit policy are much higher than the proportion agree with its presence. The indications are either the credit policies and procedures are not prepared and implemented at all or as usual credit procedures with loopholes and controversial meanings which can be twisted to personal or group decisions.

Table 4.29 commercial banks provide funds to the MFIs so that they can lend to their customers					
		Frequency	Percent	Percent	Cumulative Percent
	strongly disagree	16	24.6	24.6	24.6
	Disagree	32	49.2	49.2	73.8
	not specific	7	10.8	10.8	84.6
	Agree	8	12.3	12.3	96.9
	strongly disagree	2	3.1	3.1	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

The presence of reliable and secured source of funds can make operations easy for micro-finances. The sources are from public or customer deposits, long term debt for commercial and aids and supports from international and local non-governmental organizations. A step by set assessment of the source will help to identify the challenge to mobilize resources73.8 percent do not support the micro-finance fund is from long term credit from commercial banks. The interpretation is the commercial banks and MFIs financial collaboration is weak. It also challenge for micro-finance to rely on commercial banks to access financial service and drive their own operations. Similarly, 49.2 percent disagree the efforts to mobilize deposit from the public or customer source is successful. They oppose the situation by declining the resource mobilization from customer is insufficient to support lending in the institutions. On contrary, only 18.5 percent are in consent with the proposition, that micro-finances are capable of mobilizing deposits from customers and satisfy the need of borrowers.

Table 4.30 Sufficient Funds Are Raised Through Various Saving Scheme To Much The Credit Service Requirement To Their Client					
		Frequency	Percent	Percent	Cumulative Percent
	strongly disagree	8	12.3	12.3	12.3
	Disagree	24	36.9	36.9	49.2
	Not specific	21	32.3	32.3	81.5
	Agree	12	18.5	18.5	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

The third alternative is lean on the support of non-governmental organization for serving the credit demand of customers in the society. Accordingly, some 46.6 of the respondents agree with the idea of support from NGOs' and these firms are lending resources obtained from aid and support delivered from international humanitarian contribution.

Table 4. 31 MFI RELY ON FINANCIAL SOURCE FROM NGO'S AND GOVERNMENT TO LEND TO THEIR CLIENT.

		Frequency	Percent	Percent	Cumulative Percent
	strongly disagree	13	20.0	20.0	20.0
	Disagree	23	35.4	35.4	55.4
	not specific	3	4.6	4.6	60.0
	Agree	26	40.0	40.0	100.0
	Total	65	100.0	100.0	

Source: Researcher's primary data computation

In order of customer consent, the reliable sources the aid from NGOs comes first followed by resource mobilization efforts from micro-finance institutions. The last is lending opportunities from commercial banks, which turns out the last source of fund to satisfy customer's requirements.

The other assessment are the customer view on challenges and prospective of micro-finance institutions. The summarized analysis of customer views is presented here under.

Socio-demographic Characteristics of Customers.

Table 4.32 GENDER OF RESPONDENTs					
		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	Female	126	77.8	77.8	77.8
	Male	36	22.2	22.2	100.0
	TOTAL	162	100.0	100.0	
AGE OF RESPONDENT		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	20-39	88	54.3	54.3	54.3
	40-59	74	45.7	45.7	100
	TOTAL	162	100.0	100.0	

Source: Researcher's primary data computation

Table 4.33					
EDUCATIONAL QUALIFICATION		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	SECONDARY	18	11.1	11.1	11.1
	DIPLOMA	90	55.6	55.6	66.7
	DEGREE	54	33.3	33.3	100.0
	TOTAL	162	100.0	100.0	

Source: Researcher's primary data computation

The socio-demographic assessment of the clients indicates, out of the total micro-finance institutes customers under investigation, 77.8 percent are women and the rest 22.2 male which is consistent figure with the role micro-finance play in the societal. Further, the youth is highly affiliated with the micro-finance institute, i.e. 54.3 percent of the total respondents working with the micro-finance institutes are in the age group of 20-29. The other 43.7 are over the age of 40 but still work together with these firms. Education wise, 11.1 percent are secondary, 56.6 are diploma holders and the rest 33.3 are first degree holder customers of micro-finance institutes. This can help MFIs to easily provide training and reduce business losses of loans and advances delivered to customers. The business area of customers and the micro-finance institutions lending practices are theoretically related. The 33.3 percent of respondents discloses that they are working in private sector employee and the other 66.7 operate their own business undertakings. Meanwhile, most of the customer earn monthly income above Birr 5000 and on average have 3-5 years of customary relationship with these firms.

Table 4.34 OCCUPATION

		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	PRIVATE SECTOR	54	33.3	33.3	33.3
	OWN BUSINESS	108	66.7	66.7	100.0
	TOTAL	162	100.0	100.0	

EDUCATION OF RESPONDENT

		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	$1000-2999	18	11.1	11.1	11.1
	$3000-4999	36	22.2	22.2	33.3
	ABOVE 5000	108	66.7	66.7	100.0
	TOTAL	162	100.0	100.0	

Table 4.35 PERIOD OF CUSTOMER -SHIP WITH MFIS

		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	1-3	18	11.1	11.1	11.1
	3-5	108	66.7	66.7	77.8
	5-10	36	22.2	22.2	100.0
	TOTAL	162	100.0	100.0	

114 o 88.9 respondents are credit service customers and the rest 11.1 percent use saving micro-finance product. The number indicates that most of micro-finances challenges emanates from customers demand for loans and advances rather than using customer tailored products other than credit service. This can put demand-supply imbalance on the operations of micro-finances dissatisfying customers.

MICRO-FINANCE SERVICES YOU USE MOST FREQUENTLY

Table 4.36		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	CREDIT SERVICE	144	88.9	88.9	88.9
	DEPOSIT	18	11.1	11.1	100.0
	TOTAL	162	100.0	100.0	

Source: Researcher's primary data computation

The summarized customer satisfaction on credit services indicates that, 77.8 percent are dissatisfied with the loans and advances services and the amount is not enough compared with their credit demand. The other 22.2 percent agree with the credit service availability and what is delivered to them is sufficient. Overall, from respondents views greater proportion of customers disagree with the issue of sufficient funds to lend for customers.

Table 4.37 **MFI DELIVER SUFFICIENT FUNDS TO YOU BUSINESS**

		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	STRONGLY DISAGREE	18	11.1	11.1	11.1
	DISAGREE	126	77.8	77.8	88.9
	AGREE	18	11.1	11.1	100.0
	TOTAL	162	100.0	100.0	

Source: Researcher's primary data computation

The problem with customers is not limitation of loans and advance service, but also the rate at which they borrow the loans and advance is the challenge. 44.4 percent of the respondents disagree that the credit interest rate is not reasonable and the firms request high rates of interest on lending they provide borrowers. Opposed to this, 55.6 agree on the reasonability of interest rate of micro-finance institutions. From discussion above it is not surprising to see higher interest rate tariffs in micro-finance institutes, since cost of transaction is confirmed high.

Table 4.38 THE INTEREST RATE REQUEST BY MFI IS REASONABLE					
		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	STRONGLY DISAGREE	54	33.3	33.3	33.3
	DISAGREE	18	11.1	11.1	44.4
	AGREE	90	55.6	55.6	100.0
	TOTAL	162	100.0	100.0	

Source: Researcher's primary data computation

In the same development, the schedule of loans and advance repayment is another challenge for customers to pay it back comfortably, which causes credit risk to lenders or micro-finance institutes. This impinge some operational tasks and borrowers may refuse to pay on per specified schedules since it is not convenience. In this regard, 66.7 percent of the customer are not convenient with the schedule of credit repayment. While only 33.3 percent are in consent with the periodic repayment convenience.

Table 4.39 THE LOAN REPAYMENT SCHEDULE IS APPROPRIATE TO REPAY THE LOANS AND ADVANCES					
		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	STRONGLY DISAGREE	18	11.1	11.1	11.1
	DISAGREE	90	55.6	55.6	66.7
	NOT SPECIFIC	18	11.1	11.1	77.8
	AGREE	36	22.2	22.2	100.0
	TOTAL	162	100.0	100.0	

Source: Researcher's primary data computation

Similarly, the customers also have given response on the term of credit services. 66.7 percent has concern on term of the loans and advances. These respondents are not comfortably with the length of credit terms i.e. the term is shorter to run their business and pay back the debt. But still, some agree on the fairness of the term period to repay their debt.

Table 4.40 DURATION OF THE LOAN OR TERM OF THE LOAN IS CONVENIENT TO YOUR BUSINESS					
		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	STRONGLY DISAGREE	54	33.3	33.3	33.3
	DISAGREE	54	33.3	33.3	66.7
	NOT SPECIFIC	18	11.1	11.1	77.8
	AGREE	36	22.2	22.2	100.0
	TOTAL	162	100.0	100.0	

Source: Researcher's primary data computation

The other hurdle to the operations of micro-finance customers are the group lending process they follow. The whole 100 percent customers agree that the grouping cliental to disburse loans and advances created long process and discomforts within groups. This is great challenge to the micro-finance operation as well as its feature prospects. Since no single customer voted the goodness of group lending.

Table 4.41 GROUP LENDING PROCESS TAKES LONGER TIME					
		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	AGREE	162	100.0	100.0	100.0

Source: Researcher's primary data computation

Apart from credit area challenges there is some other challenges tempting micro-finances while doing their financial roles. The major challenge of micro-finance institutes lies on their geographical availability. 56.6 percent disagree on the geographical availability and accessibility.

The case indicates that the branch networks of micro-finance institutes are not easily acerbity and are problems for customers to gain services on demand.

Table 4.42 MFI CHANNELS AREA ACCESSIBLE AND CLOSER TO CUSTOMERS					
		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	Strongly DISAGREE	72	44.4	44.4	44.4
	DISAGREE	18	11.1	11.1	55.6
	AGREE	72	44.4	44.4	100.0
	TOTAL	162	100.0	100.0	

Source: Researcher's primary data computation

Similarly, the inability of micro-finance institutes to complement their products and services through technology in addition to branch availability is a challenge they are facing today. 77.8 percent argue that the micro-finance institutes are not technology affiliate to deliver their products to end users. Only 11 percent gives full consent that micro-finances has technology to reach their product and services to their cliental. Therefore, micro-finances are limited on few branches, neither expanding on geographical branching nor implementing substitute technologies to intermediate products and services on technologies.

Table 4.43 THE MFIS SERVICES ARE TECHNOLOGICALLY SUPPORTED AND ATTAINABLE ANYWHERE ANT TIME					
		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	STRONGLY DISAGREE	36	22.2	22.2	22.2
	DISAGREE	90	55.6	55.6	77.8
	NOT SPECIFIC	18	11.1	11.1	88.9
	AGREE	18	11.1	11.1	100.0
	TOTAL	162	100.0	100.0	

Source: Researcher's primary data computation

To assess whether micro-finances are discharging their roles in the society vis, the initial establishment charter, the customer were requested if the firms are serving only affluent customers. Here, 88.9 percent of the customers disagree and replied theses financial firms are serving customers they are intended to serve. That is interesting result from customers since whatever challenges are in their operation, they are serving poor and lower income society .

Table 4.44 MFIS SERVE AFFLUENT AND BUSINESSMEN RATHER THAN POOR AND LOWER INCOME SOCIETY.					
		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	STRONGLY DISAGREE	36	22.2	22.2	22.2
	DISAGREE	108	66.7	66.7	88.9
	Agree	18	11.1	11.1	100.0
	TOTAL	162	100.0	100.0	

Source: Researcher's primary data computation

Staff area hurdles are also evaluated by customers of the micro-finance firms. 77.8 percent completely agree with the staff and management knowledge and support to clients. This is also another important progress to micro-finance institutes to gain such trust from their clients. There is some differences on the responses of customers and staff on the efficiency and effectiveness of the management. But , if customers say so, we accept more of them.

Table 4.45 THE STAFF AND MANAGEMENT OF THE MFIS ARE SUPPORTIVE AND KNOWLEDGEABLE					
		FREQUENCY	**PERCENT**	**PERCENT**	**CUMULATIVE PERCENT**
	AGREE	126	77.8	77.8	77.8
	STRONGLY AGREE	36	22.2	22.2	100.0
	TOTAL	162	100.0	100.0	

Source: Researcher's primary data computation

The other task of micro-finance institutions is to train their customer on various aspects of financial services including business and financial management practices. But unfortunately, 77.8 percent of respondents did not attain training facilities from these firms . The rest 22.2 agree the training facility in these firms . Nevertheless, these institutes are not rendering training to the required level, but which is very important to increase the awareness of clienteles.

Table 4.46 THE MFIS PROVIDE REGULAR TRAINING ON DIFFERENT PRODUCTS AND SERVICES TO THEIR CLIENT					
		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	STRONGLY DISAGREE	36	22.2	22.2	22.2
	DISAGREE	90	55.6	55.6	77.8
	AGREE	36	22.2	22.2	100.0
	TOTAL	162	100.0	100.0	

Source: Researcher's primary data computation

Besides offering trainings, the quality of training was assessed which is delivered to the customers even it is smaller in volume. Similar trends were observed in respondents answers to the case. Some 66.7 percent disagree on the training quality to enable them start new business or sustainably conduct the existing one. On contrary, 33.3 percent agree on the training availability and its content enabling them either to create and run new business or properly manage the existing business. Whatever the case is, it requires micro finance institutes to revise the underlying condition in their area and update the training requirements and business type to further bring awareness in customers mind.

Table 4.47 THE TRAINING ENABLES YOU HOW TO START NEW BUSINESS AND ENTREPRENEURSHIP AND RUN THE EXISTING BUSINESS SAFELY					
		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	STRONGLY DISAGREE	18	11.1	11.1	11.1
	DISAGREE	90	55.6	55.6	66.7
	AGREE	54	33.3	33.3	100.0
	TOTAL	162	100.0	100.0	

Source: Researcher's primary data computation

From the very purpose of the micro-finance institutes operation in the society, it is clear they are supported from government , non-governmental aid organizations or another arrangement which help them to mobilize funds for further lending and administrative costs. But are micro-finance institutes free from corruption and serving customers supporting poverty alleviation? Customers respond, 88.9 percent agree the contribution of micro-finances in implementing government policies and cleanness of their operation from corruption.

Table 4.48 MFIs ARE SUPPORTING GOVERNMENT PRACTICES WHICH IS CLEAR FROM CORRUPTION					
		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	AGREE	144	88.9	88.9	88.9
	STRONGLY AGREE	18	11.1	11.1	100.0
	TOTAL	162	100.0	100.0	

Source: Researcher's primary data computation

But these firms are under influence of their funding organization. Similar proportion of respondents agree that the owners and stakeholders have greater influence on decisions of micro-finance institutes altering the direction while serving the customers according to proper financial management.

Table 4.49 MFIS IMPOSE THEIR STOCKHOLDERS INTEREST ON THE CUSTOMERS					
		FREQUENCY	PERCENT	PERCENT	CUMULATIVE PERCENT
	DISAGREE	20	12.3	12.3	12.3
	NOT SPECIFIC	16	9.1	9.1	22.2
	AGREE	108	66.7	66.7	88.9
	STRONGLY AGREE	18	11.1	11.1	100.0
	TOTAL	162	100.0	100.0	

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This final chapter presents the summary of the study. It also discusses the major findings and draws the necessary conclusions. The implication of findings, contribution to knowledge, recommendations and future directions for further research are put forward.

Summary of Finding and Discussions

- The micro-finances under study are serving women, youth and poor segment of the society. This is supported by the social and demographic characteristics of the respondents both from employee and customer side.
- The sources of funds are mainly from government and non-governmental organizations which guide these micro-finance institutes towards pre-designed goals of humanitarian and political nature.
- From prospective of role discharging, both customers and employees in this selected micro-finance institutes believes, more or less they are serving the poor and low income part of the societal in charge.
- The micro-finances operate under loose procedures and manuals, operations skills including lower accounting and management knowledge, lack of separate systems for operational transactions management, improper budgeting and financial projections problems
- The overall human resource practices, namely training and development, compensation and remuneration , staff recruitment and selection are weakly managed and are not transparent enough to the level required
- Cost of each single transaction is very high that the micro-finances are incurring different expenses on follow-up, utility , other overhead costs and administrative expenses
- Binding saving in micro-finances cannot satisfy the need for funds and insufficient deposit mobilization also hurdles the operation of credit services to borrowers.

- The improper decision making, the low management efficiency and effectiveness, lack of transparent operation flows is becoming the feature of these micro-finances
- Client follow-up is loose and customer tracking is not usually practice in these firms.
- Lack of proper core banking, database management systems and poor form of standardize reporting.
- Challenges from regulatory body come in the form of complexities in registering and licensing, strong and inflexible directives, rules and regulations to comply with and barriers of some financial activities to micro-finances.
- Lack of regular training for customers and weakness on creating awareness among service users.
- Short terms to repay loans and advances, high terms and tariff of credit services, group requirement and unbalanced repayment schedules implemented by micro-finances
- Limited number of branches, technology complementary limitations and geographic challenges to customers.

  These are the major findings and challenges of the micro-finance institutes understudy discovered by this research paper.

Conclusions

This study focused on the challenges and prospects of micro-finance institutes in Ethiopia, the case of two dominant micro-finance institutes, namely ADSCI and OCSSO operating in and around Addis Ababa. The major findings of this study wind up on three main areas of micro finance challenges and future prospects. Primarily, the biggest challenge comes from the internal capacity challenges on human resource management comprising lack of strong human resource practices including proper training, clear and transparent employee recruitment and selection and benefit packages. The other internal problem is limited investment on modernization of operations and lack of technology to enable products and services easily accessed and utilized by clients. The limitations of MFIs also reflected on reluctance of firms on preparing strategies, policies and procedures which later exposed on operation of the financial organizations. The other challenge emanates from regulatory prospective. The directives, rules and regulations of the governing body limits the operations and activities of the micro-finance institutes through provisions on service and product types, prudential requirements and ownership limitations. The external challenges are those imposed by the stockholders and economic variables outside the firms. The study understands that, mostly, the micro-organizations are not free of external interference on decisions and operations. The institutes are supported either by non-governmental organizations which guide their operations according to their own goals and government implementing political requirement's on services and products. Therefore, freedom of decision making by managers and employee is under question mark. In addition, the study find out that, in whatever case the MFIs are serving the poor and low income section of the society. The Economic challenge affects efforts of resource mobilization in the form of deposits since people on the poverty line cannot adhere to the binding saving requirements of micro-finance institutes.

5.3 Recommendations

Based on the findings and conclusion of the study, the researchers suggested the following recommendations to lessen the challenges of microfinance institutions in understudy.

5.3.1 Recommendations for Micro-Finance Institutes

- The micro-finance institutes must develop strategies which will enable them to build internal capacity in areas of operation, technology and humans resource practices. These area is fundamental to their success in intermediating financial services. This include enable services to be supported by modern ITC technologies, new organizational structures and well organized HRM practices, customer oriented services and products are few of them
- Properly manage the stockholder intrusion, by setting policies, rules and regulation which limit their interference and there should be clear line of agency-principal relationships.
- The micro-finance should work extensively on customer satisfaction by diversifying their products, avoiding corruption and implementing transparent and clear operation standards to please customers, providing trainings relevant to financial and business management.

- It requires micro-finances to implement proper pricing and tariff for products, proper repayment term and schedule, since these case can result loans and advances loss and may trigger back fire on to MFIs
- Introduce efficient techniques which will enable them to mobilize customer funds rather than relying on aids and supports from government and NGO's.

5.3.2 Regulatory Body Policy Recommendation

- At the national level, by considering the role of microfinance institutions for poverty alleviation, the researchers recommend the regulatory organ toarrange them source of funds which will enable them to disburse loan with lower interest rate for those MFIs customers. This helps the institutions to increase their loan size and to increase the number of poor served by the institutions.
- Some bottleneck prudential requirements, prohibiting regulations and directives must be revised and implemented again to resurrect these micro-level institutions.

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Declaration

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

Name	**Signature**
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St. Mary's University College, Addis Ababa JUNE, 2017

ENDORSEMENT

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

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Advisor **Signature**

St. Mary's University, Addis Ababa JUNE, 2017