ST. MARY’S UNIVERSITY POST GRADUATE
STUDIES BUSINESS ADMINISTRATION DEPARTMENT
(MBA)

Service Outreach and Sustainability Of
Oromia Credit and Saving Share Company

BY

BAYISA WEGI GONFA

ADVISOR

Dr. ZENEGNEW ABIY

A THESIS SUMBITTED TO THE SCHOOL OF GRADUATE STUDIES OF ST MARY UNIVERSITY IN PARTIAL FULFILLMENT OF REQUIREMENTS FOR THE DEGREE OF MASTER OF GENERAL MANAGEMENT (MBA).

JANUARY, 2018

ADDIS ABABA, ETHIOPIA
ST. MARY´S UNIVERSITY

DEPARTMENT OF BUSINESS ADMINISTRATION (MBA, PROGRAM)

SERVICE OUTREACH AND SUSTAINABILITY OF OROMIA CREDIT AND SAVING SHARE COMPANY (OCSSCO)

BY

BAYISA WEGI GONFA

SGS/0323/2007A

APPROVED BY BROAD OF EXAMINERS

________________________________________  ____________________________  __________________________
ADVISOR                                   SIGNATURE                     DATE

________________________________________  ____________________________  __________________________
INTERNAL EXAMINER                          SIGNATURE                     DATE

________________________________________  ____________________________  __________________________
EXTERNAL EXAMINER                          SIGNATURE                     DATE
Declaration

I hereby declare that this thesis is my original work and has not been presented for a degree in any other university and all sources of materials used for the thesis have properly acknowledged.

Declared By

BAYISA WEGI GONFA SIGNATURE ____________ JANUARY, 2018

STUDENT IDNO SGS /0323/2007A

CONFIRMATION BY ADVISOR

DR, ZENEGNEW ABIY SIGNATURE___________ JANUARY, 2018

ADVISOR
Acknowledgment

First of all my special thanks gratefulness goes to my advisor ZenegnewAbiy for his professional and technical guidance to make this study effective and also my deepest admiration and appreciation goes to my family for their cooperation in every aspect for entire duration of this thesis. My heartfelt thanks also go to the of OCSSCO Head office, surrounding Finfinnee special zone and Holeta branch offices those provide with relevant data prepare this thesis and lastly but not least, I would like to appreciate all my friend who showed me their concern for my success.
List of Acronyms

BRI: Bank Rakyat Indonesia
FSS: Financial Self Sufficiency
GPL: General purpose loan
NBE: National Bank of Ethiopia
NGO: Non Government Organization
MFIs: Micro finance Institutions
MSE: Micro Small Enterprise
OCSSCO: Oromia Credit and Saving Share Company
OSFS: Oromia Surrounding Finfine Special Zone
OSHO: Oromo Self Help Organization
OSS: Operational Self Sufficient
PPS: probability Proportional Size
ROA: Return on Asset
ROE: Return on Equity
TVET: Technical vocation education Training
UNDCF: United nation Capital Development Fund
WEDP: Women Entrepreneurs Development Powerment
List of Tables

<table>
<thead>
<tr>
<th>Table of Occupation of Respondents</th>
<th>page 36</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table of Education level of Respondents</td>
<td>page 37</td>
</tr>
<tr>
<td>Table of Credit before members of Respondents</td>
<td>page 39</td>
</tr>
<tr>
<td>Table of periods of clients stayed</td>
<td>page 39</td>
</tr>
<tr>
<td>Table of Years of loan disbursed</td>
<td>page 41</td>
</tr>
<tr>
<td>Table of Distance of Sub-branch from the Clients Residents</td>
<td>page 42</td>
</tr>
<tr>
<td>Table of Credit and saving outreach performance</td>
<td>page 47</td>
</tr>
<tr>
<td>Table of performance of productivity and efficiently</td>
<td>page 50</td>
</tr>
<tr>
<td>Table of Performance of profitability</td>
<td>page 52</td>
</tr>
<tr>
<td>Table of Performance of Financing</td>
<td>page 53</td>
</tr>
<tr>
<td>Table of performance portfolio Quality</td>
<td>page 54</td>
</tr>
</tbody>
</table>

List of Charts

| Pin chart of age respondents                                                                       | page 33 |
| Pin chart of sex respondents                                                                       | page 34 |
| Chart of marital status of Respondents                                                             | page 35 |
| Chart of owner of cattle respondents                                                               | page 38 |
| Chart of period of credit                                                                          | page 41 |
| Pin Chart Getting information                                                                      | page 41 |
| Chart of customers handling respondents                                                            | page 43 |
| Chart of interest loan rate respondents                                                             | page 44 |
| Chart of overall deliver of OCSSCO                                                                  | page 45 |
| Chart of OSS and FSS performance                                                                    | page 49 |
# Table of contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declaration</td>
<td>I</td>
</tr>
<tr>
<td>Acknowledgement</td>
<td>II</td>
</tr>
<tr>
<td>List of Acronyms</td>
<td>III</td>
</tr>
<tr>
<td>List of tables</td>
<td>IV</td>
</tr>
<tr>
<td>List of charts</td>
<td>IV</td>
</tr>
<tr>
<td>Table of Content</td>
<td>V</td>
</tr>
<tr>
<td>Abstract</td>
<td>VIII</td>
</tr>
</tbody>
</table>

## Chapter One

1. Introduction.................................................................1
   1.1 Background of study..................................................1
   1.2 Statement of problem................................................3
   1.3 Objective of study....................................................4
   1.4 Significance of study................................................4
   1.5 Scope and Limitation of study......................................5
   1.6 Organization of study...............................................5

## Chapter Two

2. Literature Reviews.......................................................6
   2.1 Theoretical Literature.............................................6
       2.1.1 Micro finance Definitions..................................6
       2.1.2 Micro Credit and Micro finance............................6
       2.1.3 Overview Micro finance institutions........................7
       2.1.4 The Micro finance Revolutions...............................10
       2.1.5 School of Thought on Micro finance service delivery......12
       2.1.6 The Institutions Approach..................................12
       2.1.7 The Welfarist Approach.....................................13
       2.1.8 Welfarists VS Institutions Approach........................13
       2.1.9 Micro finance Sustainability................................16
       2.1.9.1 Financial Sustainability................................16
       2.1.9.2 Operation Self Sufficiency................................17
       2.1.9.3 Financial Self –Sufficiency..............................18
2.1.10 Outreach in Micro finance ............................................................ 19
2.1.10.1 Aspects of Outreach ................................................................. 21
2.1.11 Sustainability VS Outreach ....................................................... 22
2.2 Empirically Literature Reviews .................................................. 23
2.3 Summary and Literature review gap ........................................... 25

Chapter Three
3 Methodology of the Study ............................................................... 27
3.1 Types of Research Design .............................................................. 27
3.2 Method of Data Collection ............................................................ 27
3.3 Method of Sample and sample size Determination ......................... 27
3.4 Data Analysis .............................................................................. 28

Chapter Four
4 Data Analysis and Presentation ...................................................... 29
4.1 Credit and Saving Provision Methods of the Company .................. 29
4.1.1 Credit provision ........................................................................ 29
4.1.1.1 Types of Loan (Credit) ............................................................. 29
4.1.1.2 Loan Eligibility Criteria .......................................................... 30
4.1.1.3 Loan Disbursement ................................................................. 31
4.1.1.4 Mode of Repayment ............................................................... 31
4.1.1.5 Saving Provision .................................................................... 32
4.1.1.5.1 Compulsory saving ............................................................. 32
4.1.1.5.2 Voluntary saving ............................................................... 32
4.2 Socio Economic Condition of Clients of Organization .................. 33
4.2.1 Socio –Demographics characteristics of clients ........................... 33
4.3 Wealth Condition of Clients .......................................................... 38
4.4 Customers of feedback of on service delivery of the company ......... 39
4.5 Credit and Saving Outreach ............................................................ 47
4.6 Sustainability of Performance of the Company ............................... 48
4.6.1 Operational and Financial sufficiency ....................................... 48
4.6.2 Productivity and Efficiency ....................................................... 50
4.6.3 Profitability .............................................................................. 51
Abstract

Now a day’s microfinance is a useful means of intervention for development strategy for Ethiopia, to reduce poverty by reaching people who are unable to offer collateral for formal banking loans. In addition, at present, institutional sustainability is becoming the guiding principle for microfinance institutions. The issues of reaching the poorest of the poor and ensuring sustainability are among areas of ongoing debate in the microfinance sector.

This study, therefore, was conducted to evaluate service outreach and sustainability of Oromia Credit and Saving Share Company. The source of data collections primary data was collected from various individual household and branches of the company and The study was designed as descriptive research type and Qualitative and Quantitative Research approach was formulated to achieve the objective evaluation of the service outreach and sustainability performance of Oromia Credit and Saving Share Company. Data was obtained from sample branch of the Company and In order to collect the data 147 sample clients out of population size 2702 and simple random sampling and convenient sampling methods were employed for questionnaire respondents and interviewee selection. To analyze both qualitative and quantitative analysis were used. Ratio analysis, trend analysis, SPSS and MS-Excel computer programs in relation with tables and charts were important.
 CHAPTER ONE

INTRODUCTION

1.1 Background of study

Everywhere around the world, it is common to observe some rich people and a lot of poor people who cannot fulfill the minimum requirements of basic needs for survival. Despite the score of modernizations and advancement that have been registered in the world, the percentage of people living below poverty line is still huge, especially in least developed countries like Ethiopia. Establishment of microfinance institutions (MFIs) that provides access to credit is regarded as means of tracking the financial constraint of the poor. Because one of the major problems that poor people in the rural and urban areas face is lack of capital and Outreaching poor clients requires innovative operating methods to manage risks and reduce transaction costs because poor people have no physical assets to offer as collateral for loans. Formal banking procedures often marginalize poor borrowers because of poor borrowers want financial services in tiny amount which are exposed to high risks through the eyes of the formal banking system (Todaro, 2000).

Since, the government of Ethiopia opened commercial banking sector to private banks, and in 1996 microfinance institutions (MFIS) were created to serve populations with no access to financial services. Microfinance refers to financial services such as cash loans, deposit saving account, insurance premium made available in relating small amounts to poor population in the developing world and its basically relates to all financial intermediation on services such as saving, credit fund transfer, insurance, pension and remittance among others by financial institution in both rural and urban areas to low income earners (Robinson, 2001) and also its abilities both to reduced poverty and to develop the institution capacity of financial system through finding ways to cost effectively lend money to poor households (Morduh-2009).

It expanded enormously in the 1990s (Ledgerwood, 1999) policy makers, donors, practitioners and Academics underline the role of microfinance as a power tool for poverty alleviation and economic development few economic agenda as are as popular at these days microfinance, rural finance and micro credit.

Microfinance as a poverty alleviation tool and development pathway, as it is perceived by many especially in developing countries, is associated with gender issues as well.
Microfinance programs and institutions are a recent growing development phenomenon in developing countries. It plays an important role in providing access to financial services to rural farmers and people engaged in other similar activities as well as micro and small-scale rural and urban entrepreneurs (Micro Financing Business Proclamation no 62, 2009).

Now a day’s microfinance is a useful means of intervention for development strategy for Ethiopia, to reduce poverty by providing a credit access to those people who are unable to offer collateral for formal banking loans. Financial service available to poor people as a loan is recognized as an important part of poverty reduction strategies. Outreaching poor client requires innovative operating methods to manage risk and reduce transaction costs because poor people have no physical assets to offer as collateral for loans. Microfinance institutions are one way to shift from aid dependency to self-reliance. Making at present institutional sustainability is becoming the guiding principle for microfinance institutions.

A few MFIs are becoming sustainable with a record of good profit returns. However, there are positions that such sustainability is achieved at the exclusion of the poor people (Letenah, 2009)

These two imperative issues (outreach and sustainability) create a debate in the microfinance sector. It is obvious that reaching the poor is so costly and risky; this makes the institutions to focus on the non-poor societies to reduce their costs and risks (Lafourcade et al, 2005) and On the other hand, the limited supply of service by microfinance institutions because of little supply of fund from donors ‘(donors’ demand on MFIs to have good repayment rate to offer further funding support) and the methodologies of some MFIs do not fit with the interest of the very poor (they lack best way of selection of customers) makes the MFIs to focus on mobilizing saving as a major source of loan fund that highly needs to ensure sustainability to win the trust of depositors. Therefore, the issues of reaching the poorest of the poor and ensuring sustainability are among areas of ongoing debate in the microfinance sector. Still it is a great challenge to build MFIs that reach the poor and simultaneously achieve sustainability, but both are the twin targets of microfinance to reduce poverty for the poor people (Letenah, 2009)

This study mainly focused on the above issues. The study would assess the two most important empirical issues of MFIs, outreach and sustainability, by taking the experience of the Oromia Credit and Saving Share Company as evidence. In addition, it would be assessed the client’s attitude towards the services of the company and would be observed their socio-economic condition of the clients to fill the gap between theory and actual practice in microfinance sector.
1.2 Statement of problems

In developing countries like Ethiopia, informal institution especially micro finance institution (MFIs) are becoming more and more important in poverty reduction strategies and potential to reach number of those excludes from the formal financial sector should be not underestimated. Several microfinance institutions were established and have been operating towards resolving the credit access problem of the poor people who were not included in the formal banking sectors because of collateral requirements. The studies that show microfinance does not reach the poorest of the poor, rather they are reaching the non-poor group of people.

Although the significant role played by MFIs, Diagne (1999) specified that the rural poor suffer from lack of access to formal credit. Failure to get formal credit support has limited the rural household ability to increase their productivity and thereby improve their income. The traditional commercial banks and development banks do not take an interest in providing financial services to the rural farmers. They have been able to extend credit to limited customers only. If they provide, they direct the credit to the specific production activities, ignoring part of the demand side (Jemaneh, 2002). To address these problems, the government of Ethiopia established credit institutions to reach a large number of rural poor. The credit institutions, however, have no clear rules and criteria for targeting the poorest of the poor indicating that credit institutions are drifting away from their original mission of reaching the poor (Ejigu, 2009). There is evidence which shows that a large number of rural farmers are marginalized, and thereby do not have access to micro credit (due to high transaction cost associated with small size of the loan and different requirements imposed by the lenders). Besides, due to high default and lack of effective enforcing mechanisms lenders restrict supplying credit to borrowers (Stigliten and Weiss, 1981). For example, in rural Ethiopia, only 34% of the credit demand of the poor is reached by credit institutions (Ejigu, 2009). Rural household look challenge not only to access credit but also several features that influence their demand for credit. Determinants of demand for rural household credit are questions that need to be examined. Most existing studies focus on constraints of access to credit which is the supply side factors; suggesting that there are quite few studies that investigate rural households credit demand and access separately.

Besides most MFIs have no regulation and rules also no feasibility criteria to target the poorest of the poor and this shows that the MFI are far away from the their original mission of reaching and serving the poor (Letenah Ejigu, 2009). In Ethiopia, MFI are considered to be useful development strategies to reduce poverty having the objective to provide finance to the
poorest of the poor people in rural as well as urban areas of the country. It is obvious the providing micro finance to the poor clients is highly costly and risky. It requires innovative operating methods to manage risk and transaction cost because these problems make the MFIs not reach the poorest of the poor society (Lafourcade et al, 2005).

This study was focused on the issue of reaching and ensuring sustainability that unanswered debate in MFIs areas and currently both outreach and sustainability are the mirror of the target of MFIs for poverty alleviation. However, the study focused on service outreach and sustainability of OCSSCO.

1.3 Objective of study

General objective would be to evaluate the overall Service outreach and sustainability of Oromia Credit and Saving Share Company.

Specific objectives Would be as follows

- To evaluate the outreach performance of OCSSCO (Depth outreach)
- To determine the financial sustainability of the company
- To figure out the operational sustainability the company

1.4 Significance of the study

This study would help to fill the gap between the theory and the ongoing practice in the microfinance area regarding outreach and sustainability. In addition the study would provide essential information for the institution such as financial and operational self-sufficiency, outreach depth and breadth, profitability, portfolio quality, and customers’ feedback about the service and help the institution to evaluate itself and take adjustments for future improvement. Also, the study would gave some important information for customers about the institution which helps them to know where the position of the institution is, that would create psychological confidence about the institution. On the other hand, the study would be useful for collecting and documenting valuable data for further researchers who would have an interest on such like study area.
1.5 Scope and Limitation of study

This research study only emphasized on the assessment of outreach and sustainability of the OCSSCO. Thus the other issues like impact assessment not covered in this study. In binds all relevant data with the company which have influence on the outreach and the sustainability of the company. Due to the physical and capacity constraints the study concentrated on SFSZ Holeta sub-branch and included both rural and urban residents for the data collection. In addition, non-customers and drop-out customers of the institution were not included as a respondent for this study.

1.6 Organization of Study

The final Research report was structured in such a way that it could provide Coherent flow of ideas. The report would be divided into five chapter such that introduction to study, which includes Background of the study, statement of the problem, Objective of the study, significant of the study, scope and limitation of the study and organization of the study. The Second Chapter is Literature Review, would present the theoretical and empirical literature of the study. The third chapter contains research methodology and the fourth part of the report will present of the results and discussions of the study. Finally, the fifth chapter concerned about the summary of finding and the recommendation would be presented.
CHAPTER TWO
LITERATURE REVIEWS

2.1 Theoretical Literature

2.1.1 Micro Finance Definitions

Micro finance according to Etoro (1999, p.8) is “the provision of financial service to low income poor and very poor self-employed people. Those financial services according to Ledgerwood(1999) generally include saving and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001, p.339) define micro finance as” the attempt to improve access to small deposits and small loans for poor households neglected by banks. “Therefore, micro finance involves the provision of financial services such as saving, loans and insurance to poor people living in both urban and rural setting who are unable to obtain such services from the formal financial sector.

2.1.2 Micro credit and Micro finance

The term micro credit and micro finance are often used interchangeably but it is important to highlight the difference between them because both terms are confused. Sinha(1998,p2) states micro credit refers to small loans, whereas micro finance is appropriate where NGOs and MFIs supplement the loans with other financial services (saving, insurance etc). Therefore micro credit and micro finance also involves additional noncredit financial services such as saving, Insurance, Pensions and payment services (Okio credit, 2005)

Various definitions of micro finance had been which give an insights to their aim, scale and the nature of financial Service provided by MFIS and those which describe the characteristics of the users of these financial services. Micro finance is defined as range of financial services that seek to meet the needs of poor people both protecting them from flu acting income and others shocks and helping promote their income dealing they small deposits and loans (Johnoson & Royaly, 1997). Adams Graham (1984) define micro finance as the provisions financial services to low income clients who traditionally lack access to banking and related services.
Micro finance involves the provisions of financial services that aim to improve and protect the livelihoods of active economic agents which have limited access or are denied access to normal financial services as provided by banks and other formal financial sector institutions because of the small nature of their operations, geographical location, limited source and volume of their income base. Micro finance institution is not a new concept; it is dates back in the 19 centuries whom money lenders were informally performing the role of now formal financial institutions constitute; village banks, cooperative, credit union stated owned banks, social venture capital funds to help the poor these institution are those that provide saving and credit services for live under poverty line like women, farmers, those have low income, Small micro Enterprise and others have shortage of capital.

2.1.3 Overview Micro Finance Institutions

Poverty is the major problem in most developing countries. In these countries economy, among others, absence of access to credit is presumed to the cause of the failure of the poor to come out of poverty. Meeting the gap between demand and supply of credit in the formal institutions frontier has been challenging (von–pisonke, 1999). In fact the gap is not aroused merely because of shortage of loanable fund to the poor rather it arises because it is costly for the formal financial institutions to lend to the poor. Lending to the poor involves high transaction costs and risks associated within formation asymmetries and moral hazards (stiglitz and Weiss, 1981). Nevertheless, in several developing economies governments have intervened through introduction of micro finance institutions to minimize the gap the allow the poor access credit. Only a small fraction of the world population has access to financial instruments, essentially because commercial banks consider the poor people as unbendable due to their lack of collateral and information asymmetries (Letenah Ejigu 2009). Most formal financial institutions do not serve the poor because of perceived high risks, high costs involved in small transactions, low relative profitability, and inability of the poor to provide the physical collateral required by such institutions.

The business culture of these institutions is also not geared to serve poor and low income households. Lacking access to in their ability to actively participate of poor population that has viable investment opportunities persists for lack of access to credit at reasonable. The poor also lack access to institutional credit for consumption smoothing and to other services such as payments, money transfers, and insurance (ADB, 2000). Nevertheless, in several developing
countries governments have intervened, through introduction of microfinance institutions to minimize the gap, and then allow the poor access credits. There is recent global agreement that microfinance institutions are good instruments to fill the gap of conventional banks’ limitations in reaching the poor and the vulnerable non-poor with banking services. They are considered as one of the most effective interventions for empowering the poor in their economic and social involvements. That is, through these MFIs, the poor are able to access financial services, which previously were exclusively available to the upper income population. The basic idea behind such intervention is that access to microfinance services such as credit, saving and micro-insurance to the poor could help them, among others, to expand their businesses that will allow them to pull out of poverty (Mekonnen, 2008).

Formal micro-finance in Ethiopia, though a recent phenomenon, has encouraging acceptance both by the government and the development NGOs working towards poverty alleviation objectives country. The regulatory framework for micro-finance institutions permits encouraging options for the MFIs to operate and expand their services in both rural and urban areas of the country. As one of the positive aspects, the regulatory framework allows licensed MFIs to accept deposits from the public and be able to finance a significant portion of their lending businesses. Microfinance has been considered as one of the best entry points for bringing sustainable development. It is one of the most prominent instruments of most government’s pro-poor development programs and strategies (Mekonnen, 2008).

As Getaneh (2005) indicated in his study that, the Ethiopian government has established the regulatory framework early-on in the development of the microfinance industry has helped to lay out the roadmap for the development of the sector. In particular, the provision allowing MFIs to mobilize small savings from the public has enabled them to finance a substantial portion of their portfolio from internally generated sources. Microfinance is indicated among the specific means that is given greater emphasis and is expected to play essential role for reducing poverty in rural areas of the country where the bulk of its public well. Thus, most of the microfinance services providing institutes have articulated creating a small and easily accessible loan to the poor as their primary objective with the expectation of fostering pro-poor growth. Microfinance is said to have brought positive impacts on the life of the clients. A growing data base of empirical studies shows that microfinance has positive impacts to boost the ability of poor people to improve the conditions in which they live. The poor have taken advantage of increased
earnings to improve consumption levels, send their children to school, and build assets. Microfinance allows poor people to increase their incomes by starting new enterprises or expanding existing ones.

The argument is that through diversified sources of income, the people could be able to protect themselves against external shocks. Apart from the above-mentioned positive impact microfinance, access to financial services whether credit, savings, or insurance enable many poor people to access better healthcare services (Bamlaku, 2006).

Microfinance is an enabling, empowering, and bottom-up tool for poverty-alleviation that has provided considerable economic and non-economic externalities to low-income households in developing countries. How to achieve viability and yet serve large numbers of poor people is considered one of the greatest challenges for MFIs (Zeller and Meyer, 2002; Hasan et al, 2009).

The idea of microfinance has emerged as a hope for improving the access of financial services for the poor in low income countries. It promises to combat poverty through development of the institutional capacity of financial systems which find ways to cost effectively lend money for poor households. Microfinance institutions that follow the principles of good bank will also those that alleviate the most poverty. Regularly, poor households are typically excluded from the formal banking system for lack of collateral, but the microfinance movement exploits new contractual structures and organizational the riskiness and costs of making small, uncollateralized loans (Morduch J., 2000). Microfinance programs had demonstrated that even poor households can save in substantial quantities to repay loans as well as to enhance investments (Morduch J., 2000). By eventually yes chewing subsidies and achieving financial sustainability, microfinance institutions will be able to grow without the constraints imposed by donor budgets (Morduch J., 2000). A key tenet is that poor households demand access to credit, not “cheap” credit. Thus, programs can charge high interest rates without compromising outreach. Hence, if the argument is right, much poverty alleviation can be achieved at no cost to governments and donors or even at a small profit (Morduch J., 2000). Generally, Microfinance is believed to be a means to change the lives of the poor. As it is stated in (AEMFI, 2008), comprehensive impact studies conducted where microfinance services are available have demonstrated that Microfinance helps very poor households to meet basic needs and protect them against risk. The use of financial services by low income households is associated with improvements in household welfare and enterprise stability and growth.
By supporting women’s participation in economic activities, microfinance helps to empower women, thus promoting gender equity and improving household wellbeing (AEMFI, 2008). However, according to the perception of the researcher, the effectiveness of the MFIs to achieve the desired goals depends on their ability to tackle several challenges encountered during their operation. Among which, the researcher expects that, ability of the institutions to stay very long is the crucial one. In other words, self-sustainability of MFIs is obviously very important for a well-functioning financial system.

2.1.4 The microfinance revolution: An overview

The history of micro financing can be traced back as long to the middle of 1800s when the theories’ Lysander Spooner was writing over the benefits from small credits to entrepreneurs and farmers as away getting the people out of poverty. The first micro enterprise program began in the developing world in the early 1960s and emerged in the United States in the early 1980s. The United States microfinance movement was influenced by the women’s movement and is an integral part of the community economic development movement (U.S. G.A.O, 2003). As governor of Arkansas, Bill Clinton supported the good faith fund, one of the early United States microenterprise programs. Many of the early microloans programs in the United States, such as Women’s imitative for Self-Employment, focused on women, who remain the primary borrower (Susan R, 2004). Gender equality advocates have also recognized the importance of the microfinance industry.

In 1994, women’s world banking, and organization dedicated to helping low income women entrepreneurship by expanding their access to financial services, invited income women leaders to form the united nation expert group on women and finances. Contributions from the United Nations expert group on women and finances have been used by many reactionaries and policy makers in many countries to build policies, system and services that work for microfinance (Sachs J D, 2005). ‘Microfinance services are provided by banks, credit unions, and microfinance organizations, which are also known as microenterprise development organization (MDOs). MDOs such as Americans for Community Co-operation in Other Nations (ACCION) international were started in the early 1960s and Grameen Bank began in the 1970s when its founder, Mohammad Yunus, an economist professor in Bangladesh, began lending small amounts of money to poor people (Stephen C. 2005). The world attention was focused on
microfinance when Yunus and the Grameen Bank won the Nobel Peace Prize in 2006 (Susan R, 2006).

Another milestone in the history of microfinance was the opening of the Indonesian People's Credit Bank in 1895 that became the largest microfinance system in Indonesia, Self-employed women's association Bank in India and many more (Helms, 2006). Other concepts of subsidized loans given out by NGOs and governments to farmers, which might be compared with pure micro credits, often failed since farmers took the low interest loans as grants and more importantly they did not reach the real poor at all, but rather the more influential and better-off farmers. In the 1980s the microcredit programs improved their methodologies significantly and managed to be financially viable through cost-recovering interest rates and a very high repayment quota. Recently, some innovative microfinance institutions such as Bank Rakyat Indonesia (BRI) and Banc sol in Bolivia have shown that it is possible to deliver credit to large number of poor people without the financial institution being at risk.

Today there is a strong trend towards commercialization and transformation of providers of microfinance into formal financial institutions. This stems from the motivation of profitability and sustainability of microfinance institutions. More and more institutions became independent from donor funds and raise their capital from the capital markets while increasing their outreach. Commercial MFIs utilize private, unsubsidized sources of funding to raise capital in order to grow and serve more clients. In becoming commercialized, these institutions now have a double bottom line: a financial objective of sustainability to satisfy their funders in addition to their social objective of outreach (CGAPa, 2004). Originally, most MFIs rely on donations and subsidies for funding. Because these sources of funds are vulnerable to shocks, many MFIs chose to attract private sources of funds.

These private sources of funding include: deposits, loans from commercial banks, bond issuances, other short-term financial liabilities and IPOs. By accessing deposits and loans from commercial banks, commercial MFIs can grow and avoid a liquidity crunch by tapping commercial sources of funding (Berger et al, 2006). The emphasis on profitability by depositors and lenders can push these MFIs towards an increased focuses on efficiency to control costs and the innovation of new products and technologies to stay competitive. Sustainability should also be important to MFIs, especially, if they hope to help their clients out of poverty because their longevity as an organization matters. Within the industry, commercialization has several different meanings and proxies. Commercialization is defined in two ways; first, the percentages
of total MFI funding that is commercial, i.e. banks loans and deposits, and second the portion of the loan portfolio financed using commercial funds.

2.1.5 The schools of thought on microfinance service delivery

There are currently two sides of a common debate that represents the various approaches that financial services to the poor can be provided. There are the institutions school of thought and the welfarist school of thought (Woller et.al, 1999). These schools of thought disagree on the right approach to finance the poor. This debate currently determines the approach an institution adopts in the delivery of financial services to the poor. Morduch,(2000) has referred to this debate as the microfinance schism. Woller et.al, (1999) has described the situation as two nations divided by a common language.

2.1.6 The Institutions Approach

The Institutions paradigm argues that MFIs should be able to cover their operating and financial costs mainly from revenues that are generated from lending. They emphasize that, institutional financial viability and sustainability are key to a successful inclusive financial provision to the poor (Brau & Woller, 2004). To the Institutions, an emphasis is laid on creating a sustainable microfinance institution that can adequately serve the poor. To them, viable MFI is a pre-requisite to adequate outreach. This, they explain to mean that, if the institution is sustainable, then an inclusive financial service can be provided to the poor even at cheaper cost. Institutions that have adopted this approach focus on the breadth of outreach (scale) rather than the depth of outreach (level of poverty). Nevertheless; this has been the approach of current commercial MFIs. MFIs according to Woller, and Woodworth (1999) should be able to cover operating and financing costs through programmed revenues rather than through donations and subsidies. The approach emphasizes the fact that, raising the cost of microfinance services does not reduce demand for it. More so, it is only sustainable programs that can make a real impact on poverty but not subsidized and donor dependent programmers. Cope stake et.al, (2005) have also contributed to this thinking by pointing out that profitability as a means to sustainability of a microfinance programmed is a necessary perquisite for a sustainable poverty reduction. In providing financial services to the poor, the Institutions argue that the institutional sustainability is very paramount and should be the focus if the numerous numbers of currently excluded poor are to be reached and provided with better financial services that can have the desired impact on poverty.
2.1.7 The Welfarist Approach

On the other hand, is the welfarist school of thought who believes and argue that the poor and poverty reduction should be placed first. They try to demonstrate that if MFIs concentrate on sustainability and financial viability, the tendency to lose focus on the poor and the very poor is very high. It is contended that, it is possible for MFIs to be sustainable since donations from donor agencies serve as a form of equity which MFIs can satisfactorily use to reach the poor without making profit and donors will be satisfied with that since it is a form of social investment. The welfarist school of thought emphasizes poverty alleviation and depth of outreach rather than the breadth of it (Brau&Woller, 2004). They agree that institutional sustainability is very important but it is unethical to sacrifice the depth of outreach to achieve such financial viability that the Institutionists hold. In that vein they suggest that subsidies can still make an institution sustainable without necessarily focusing on profitability. It is clear that the two schools of thought have different views on the methodology that should be adopted in this drive to serve the poor.

However, (Von Pischke, 1996) has pointed out that there exist a trade-off between the two debates but the nature, extent and the implications of the tradeoff is not resolved; and the way the debate is resolved will have a significant impact on microfinance in terms of its guiding principles, objectives, clients and delivery (Woller et.al, 1999). The Institutionist school of thought therefore, conclude that subsidized programmers as advocated by the welfarist paradigm undermines savings culture which is an important aspect of microfinance and such credits in most cases end up in the hands of the non-poor (Morduch, 2000).

2.1.8 Welfarists vs. Institutionalists: Performances of MFIs and causality

Microfinance in 1990s was marked by the major debate between the leading views the financial system approach and the poverty lending approach (Robinson, 2001:22; as cited by Degefe, 2009). Therefore, it is possible to distinguish two general and contrasted approaches that emerged during the underlined periods with respect to the interaction between social performance and financial performance. The debate demarcates an "ideological rift"(Burrel, 2000) between the proponent of subsidized microcredit service identified as welfarist, in other words as supporting the poverty alleviation to microfinance services and those supporting the market approach for the provision of microfinance service on a sustainable basis. Welfarists inspired from the studies of Morduch (1999, and 2000) and Hatch and Frederick (1998) and Woller and al. (1999)). This school of thought primarily aims at promoting the social
performance of MFIs through the depth of outreach and impact assessment. It targets the poorest households, whose incomes are 50% below the poverty line ($1 per day), in order to improve their living conditions. The focus is the family loans are often dedicated to women because their control on income and household savings result in their empowerment and the improvement of their livelihood as well as that of their children. This school is primarily supported by NGOs or co-operatives, which regard microfinance as a major tool for reducing poverty of the poorest. Although it does not exclude that MFIs may be profitable, it advocates a large reliance on subsidies, even on the long run.

Institutionalizes federate upon the studies of the World Bank, the Consultative Group to Assist the Poor's (CGAP), USAID and the Ohio State University Rural Finance Program. As the targeting of the poor proves very expensive, the first objective of this school is the achievement of financial performance. Offering, small loan size with shorter maturity attracts high transaction costs (Hermes et al, 2011). However, under institutionalize view the increase in the number of clients’’ increases in revenue generated hence increases sustainability. This approach designed a set of best banking practices in order to increase the effectiveness of MFIs’’ management systems. It advocates the absence of ceiling upon lending interest rates, good institutional and human capacity and a significant transparency of financial activities and information services (CGAP, 2004). The adoption of these practices is an essential step to achieve financial self-reliance on a large scale and access the financial market. Thanks to self-reliance, MFIs can target a large number of poor and fulfill at best their social mission.

This school of thought represents financial institutions that look for profitability: regulated institutions specialized in microfinance (some NGOs, NBFIs and micro credit unions), village banks that are following an upscale trend as well as some commercial banks that have recently started downscaling their activity within the microfinance sector. According to institutionalists, any subsidy is only justified as to cover the start-up costs of MFIs. As regards the risk from national or international donors to forsake on the long run, profitability allows to enlarging the funding sources of MFIs and also enables to achieve persistent self-sufficiency. Thus, a self-reliant MFI that operates on a large scale will serve a larger set of poor customers than a MFI whose goal is restricted to target and provision services to these customers. According to this view, financial performance of Microfinance institutions is the basis for accomplishing the primary objective of outreach to the poor. A profitable Microfinance institution generates excess funds for reinvestment allowing the expansion, and
growth of the firms in terms of client base, revenues, geographical coverage and asset base (Brau & Woller, 2004; Quayes, 2012; Zerai, 2012).

According to Rhyne (1998, pp. 7) sustainability is but a means to achieve outreach. According to her, the split continues between those in the poverty comp and those in the sustainability comp" everyone wants to reach the poor and everyone believes sustainability is important. She claims that one fundamental difference is that whether service can be delivering to the client to the cost clients can afford, which is ultimately about whether to subsidized interest rates. She maintains that research shows institutions that charge cost covering interest rates to have better financial self-sufficiency and outreach. Sustainability is in no way an end in itself; it is only valued for what it brings to the clients of microfinance. This is a point on which the 'poverty' camp frequently misstates the motives of the 'sustainability' camp. It would do wonders for the state of the debate if the poverty camp more readily acknowledged that the sustainability camp values sustainability only as a tool.

In response to institutionalisms, welfarists argue on the quality of donors, whose main concern is to alleviate hardship on the poor. Thus, there is no reason why donors should forsake microfinance they support in as much as focusing on the poor generates a better impact. Conversely, the pursuit of financial performance hampers technical innovation (group lending, dynamic incentives) and downgrades the social mission on the backstage. There is a risk of marginalizing the poor over time as well as forsaking rural areas in favor of urban areas. According to welfarists the objective of microfinance institutions is outreach to the poor and low income households, increasing focus on sustainability and profitability, result in to saving wealthier clients, increasing lending rates and little focus to the poor clients which adversely affects outreach to the poor (Ahlin et al, 2011; Kablan, 2012). Thus, financial sustainability may become an end rather than a means, and eschews the very goal of microfinance, i.e. to improve the wellbeing of the poor.

The debate between institutionalists and welfarists underlines a trade-off between social performance and financial performance in the short run. Although they follow two different paths in order to achieve poverty alleviation; both approaches should work together in the future. When a microfinance client uses service more than once, there is a reduction in transaction costs as some trust and information has already been established. The longer an organization exists, the greater the outreach it is able to provide (Krauland, 2012).
To date, the institutionalists’ approach seems to dominate academic research, prompting a drift of the MFIs’ social mission. Some authors (example; Woller et al., 1999) consider that welfarists should accept the requirement of profitability of institutionalists. If the welfarists’ approach enables to relieving the poor on the short run, it is only an expansion of funding sources promoted by the institutionalists’ approach that will ensure the sustainability of MFIs as well as a sustainable improvement in the situation of the poor. The welfarists’ and institutionalists’ approach represent two phases in the development of microfinance that should combine.

2.1.9 Microfinance sustainability

The concept of sustainability originates from natural science where it refers to the ability of a society ecosystem or any such ongoing system to continue functioning into the indefinite future without being forced into decline through exhaustion of its key resources. The concept of sustainability of microfinance can be divided into four interrelated ideas; namely, financial sustainability, economic viability, institutional viability and borrower viability (Khandelker et al, 1995). Financial viability relates to the fact that a lending institution should at least equate the cost per unit of currency lent to price it charges from its borrowers (i.e interest rate ).

Economic viability relates to meeting the economic cost of funds (opportunity cost) used for credit and other operations with the income it generates from its lending activities. Institutional viability is related more to the efficient management and decision-making process. Borrower’s viability however, refers to whether the borrowers of the institution have achieved higher flows of income over time and is able to repay back their loans. Amongst other forms of sustainability, financial sustainability of MFIs is emphasized in previous studies as a requisite for survival and existence to continue offering financial products suitable to the poor.

2.1.9.1 Financial sustainability

A vast and growing literature posits that for MFIs to achieve full potential they must become financially sustainable (see e.g. Brau and Woller, 2004 for a comprehensive review). Financial sustainability also known as financial self-sustenance (FSS) and operational self-sustenance (OSS) in this context, is measured as the ability of MFIs to continue operations indefinitely using own resources without seeking donations, grants, or subsidized loans from outside individuals, NGOs, or governments.

Microfinance information exchange market defines the term financial sustainability as having an operational sustainability level of 110% or more. While, operational sustainability is defined as having an operational self-sufficiency level of 100% or more. Meyer (2002) was
noted that the poor should have access to financial service on long-term basis rather than just a onetime financial support. He also stated that the financial un-sustainability in the MFI arises due to low repayment rate or un-materialization of funds promised by donors or governments. According to him, there are two measures of microfinance financial sustainability, i.e. operational self-sufficiency and financial self-sufficiency (Meyer, 2002).

2.1.9.2 Operational self sufficiency

Operational sustainability accompanies the concept of operational self-sufficiency (OSS) which measures operating revenue as a percentage of operating and financial expenses, including loan loss provision expense. If this ratio is greater than 100 percent, the MFI is covering all of its costs through own operations and is not relying on contributions or subsidies from donors to survive (Churchill and Frankiewicz, 2006, pp: 367). OSS in general includes all the cash costs of running a MFI, depreciation and the loan loss reserve. Sometimes donors will exclude the cash costs of funds from their analysis because those MFIs that begin to access the commercial financial markets and pay the cost of capital would look relatively worse than other institutions with the same costs and outreach, but who have remained reliant on donor capital to fund their portfolio (UNCDF, 2002,PP: 20). This applies due to the fact that some donor fund dependent institutions do not have the same financing cost as commercial MFIs. OSS is calculated as: Financial revenue (Total) (Financial expense +loan loss provision expense operating expense) (Microfinance bulletin, 2008a P: 13) As Meyer operational sustainability refers to the ability of the MFI to cover its operational costs from its operating income regardless of whether it is subsidized or not (Meyer, 2002). It actually refers to the future maintainability of the MFIs operational self-sufficiency. As mentioned in Armendarize and modruch, (2010, p: 243-244), operational self-sufficiency ratio measure the extent to which the operating revenue of MFIs cover its operating cost. Revenues mainly come from interest and fees paid by borrowers, but a typical institution also generates income from investment and other services. OSS is the most basic measurement of sustainability showing the extent at which operating revenues are enough to finance financial loan loss provision and operational expense (Barres et al, 2005). The United Nations Capital Development Fund (UNCDF) in 2009 also defines OSS simply as:

\[
\text{OSS} = \frac{\text{operating revenue}}{\text{Financial expense} + \text{loan loss provision expense} + \text{operating expense}}
\]

The financial expense is the denominator of OSS pertains to the cost of raising capital. CGAP (2003) recommended that expense for loan loss provisions also be included in the denominator.
The loan loss provision expense is the amount set aside to cover the cost of loans that the MFIs do not expect to recover. The third item operating expense captures basic operating expense like rent, staff wages and transportation costs among others. For MFIs it is one of the major goals to achieve OSS in order to maintain viable and further grow in their operations. Is increases in OSS is due to larger loan sizes, high yields, low financial expenses, or efficient operations.

2.1.9.3 Financial self sufficiency

Financial sustainability describes the ability to cover all costs on adjusted basis and indicates the institution’s ability to operate without ongoing subsidy (i.e. including soft loans and grants) or losses. Financial self-sufficiency shows the ability of the MFIs to be fully sustainable in the long run by covering all operating costs and maintains value of capital. The subsidy adjustment simply indicates the extent to which the subsidy being passed on to clients through lower interest rates or whether it is building the MFIs capital base for further expansion (AEMFI,2013). According to AEMFI there are three types of subsides: a cost of funds subsidy from loans delivered below market rates, current year cash donations to fund portfolio and cover expenses and in kind subsidies such as free office space. Here, UNCDF distinguishes FSS from OSS only by the fact of an adjusted basis. The United Nations Capital Development Fund (UNCDF) in 2009 defines

FSS = \text{Adjusted operating income}

Adjusted operating expense

Ledger wood additionally states that the FSS indicator should show whether enough revenue has been earned to cover direct costs, including financing costs, provision for loan losses and operating expenses and indirect costs including adjusted cost of capital (Ledgerwood, 1999, pp: 217). Due to the fact that donor support is not unlimited in reality, financial viability of microfinance services is crucial for expanding outreach to large numbers of the world’s poor. Moreover, the retention of profits of microfinance operations is important to capitalize growth (CGAP, 1998).

This also indicates that financial services are priced so that their costs are covered and they do not disappear when donors or governments are no longer willing or capable to subsidize them (Christen, et al. 2004, P. 12). Especially by covering the financial costs they get access to the capital markets and to commercial capital which then allow MFIs to increase and grow their loan portfolio and clientele outreach. MFIs can as a rule serve their poor customers best by
operating sustainably, rather than by generating losses that require constant infusions of
undependable subsidies (Rosenberg et al. 2009).

Aremendareiz de Aghion and Morduch (2005, p. 16) describe the issue of donor support
like this: “The hope for many is that microfinance programs will use the subsidies in their early
start-up phases only, and, as scale economies and experience drive costs down, programs will
eventually be able to operate without subsidy. Once free of subsidy, it is argued, the programs
can grow without the secure of donor support (be it from governments or donors).

To do this, programs will need to mobilize capital by taking savings deposits or by issuing bonds
or institutions must become so profitable that they can obtain funds from commercial sources.
However it is not always guaranteed to obtain commercial debt because microfinance services
and the unsecured lending to the poorest are still often seen as too risky by traditional banks
(UNCDF, 2002, p: 21). Two best practice examples of sustainable MFIs are Bank Rakyat
Indonesia and Banco Sol in Bolivia. Both have a large commercial outreach to poor people while
being consistently profitable in their business operations (Robinson 2002, p.3).

MFIs are said to be sustainable and financially self-sufficient when their FSS ratio is above
100%. Ensuring scale of outreach permanently is a function of financial self-sufficiency. The
financial self-sufficiency ratio corrects for soft loans by making adjustments that price capital at
its market cost. According to microfinance information exchange, (2010) financial self-
sufficiency (FSS) can also be calculated as follows;

\[
\text{FSS} = \frac{\text{adjusted financial revenue}}{\text{Adjusted (Financial expense + impairment loss on loans + operating expense)}}
\]

Subsidy adjustments serve two purposes. First, since institutions vary considerably in the amount
of subsidy they receive, adjustments that account for subsidies allow for useful comparison
across institutions. Second, to the extent that operating on a commercial basis, free from subsidy,
is an objective, subsidy adjustments represent how close an institution is to reaching this goal.

**2.1.10. Outreach in Microfinance**

Outreach is “a social benefit of microfinance” aiming at improving the wellbeing of the
poor. It is the services provision to a large portion of the society (Schreiner, 2002). In other
words, it is an effort to extend microfinance services to the people who are underserved by
formal financial institutions (Lafourcade et al, 2005). Outreach is the ability of any MFI to
provide high-quality financial services to a large number of clients. As an ambition, it calls upon
MFIs to reach a large public and to have a significant and increasing volume of activities (Hasan et al, 2009)

There are evidences to prove that access to financial services helps to accomplish economic prosperity at all levels- from individual level to national economic level. More specifically, provision of financial services to poorer segment of the population is an effective strategy for development. Providing opportunities for access to financial services to the poor raises economic wellbeing and social development. Provision of financial services to poor can thus be regarded as one of the main strategies of development efforts, but formal financial sector institutions are reluctant to supply financial services to poor considering higher costs and risk involved when transacting with the poor. Therefore there is a higher possibility that the poor to be kept away from the formal credit market (Schreiner, 2002)

As Bamlaku (2006) indicated in his study, in developing counties the poor section of the society were simply kept out of the reach of the formal financial institutions for several reasons.

- Formal financial sectors require collateral and credit rationing.
- Formal lenders prefer for high income clients and large loans.
- The processes and procedures of providing loan are bureaucratic and lengthy.
- Formal lenders are often urban based and give lending to those engaged in trade and industry.
- Formal lenders usually consider the demand for loan by the poor as unattractive and unprofitable.

The poor need finance services; they should be able to borrow money for consumption purposes, start a business, expand an enterprise and need to save in small amounts and send their child to school and all these opportunities open the door to increase quality of their lives. Access to financial services at all level of the economy makes substantial growth and development, and this is more consequential for poor (Herath and Ahmad, 2007).

Over the last decade, MFIs in Ethiopia have been able to serve the productive poor people mainly with savings and credit services. Governmental and other developmental organizations have played their own role for the positive achievements made in the country’s microfinance sector so far. Despite such remarkable progress in outreach growth and performance, the MFIs in the country are said to meet, so far, insignificant portion of the market for microfinance available in the country.
2.6.1 Aspects of Outreach

Six dimensions of outreach are identified to fit the outreach and sustainability debate

A) Worth or quality of outreach: centers on contractual terms related to amount of loan, credit period, and amortization of debt, interest rate, safety and unlimited withdrawal of savings that fit with the demands of clients (Schreiner, 2002). Worth of outreach to users is how much a borrower is willing to pay for a loan. Worth of outreach to clients is the amount of disbursement (loan size), the term to maturity, size of installments and other terms and conditions have been suited to demand.

B) Cost of Outreach: indicates how expensive these products are for the clients, both price and transaction costs are considered. Price costs are direct cash payments for interest and fees that are revenues for the microfinance institutions. Transaction costs are non-price costs for both non cash opportunity costs such as the time to apply for a loan and indirect cash expenses for such things as transport, documents, food and taxes needed to use a financial contract. Transaction costs are borne by the user and are not revenues for the institution (Schreiner, 2002; Gonzalez-Vega, 1998; Navajas et al, 2000).

C) Depth of outreach: indicates the ability of the institution in reaching clients “deep in the pool of the under-served”. This can be confirmed using the depth of outreach index that encompasses the poor, women, rural inhabitants, and the uneducated as believed to be the attributes of those excluded from conventional banks and are very poor (Schreiner, 2002). The poorer the client, the greater the depth of outreach.

D) Breadth of outreach: refers to the number of clients served. In addition, the type of products and services offered measures the breadth of outreach (Schreiner, 2002). Breadth of outreach counts the numbers of clients of a given depth who are supplied with a microfinance product of a given quality (worth) and a given cost.

E) Length of outreach: is the provision of microfinance service for indefinite period of time in the future or it is the time frame of the supply of microfinance. Length of outreach is the time frame in which a microfinance organization produces loans. Length matters since society cares about the welfare of the poor both now and in the future. (Navajas et al, 2000). Length of outreach requires sustainability. Because, without the desire for sustainability, clients, staff and managers of MFIs will not have sufficient incentives to make the right decisions (Gonzalez-Vega, 1998).
F) Scope of outreach: implies the types of products and services offered to clients. Scope between products might mean loans, savings, insurance and other products or services offered broken down by product lines or product types. Scope within a product might mean loans to both groups and individuals (Schreiner, 2002; Praveen, 2009).

In sum, serving a broader range of clients including the vulnerable poor and those excluded from conventional banks helps to diversify risk while reaching the very poor in a sustainable way (Praveen, 2009). Poverty alleviation through microfinance requires reaching the poor lacking productive capital through building viable institutions. Practice has shown that a successful outreach is also needed to make sustainability possible (Hasan et al, 2009).

2.1.11 Sustainability vs Outreach

Sustainability and outreach are two long term goals that microfinance institutions eventually strive to achieve (Ledgerwood, 1999). Achievement of sustainability has been one of the important goals of microfinance institutions, because reduction of poverty can only be achieved if these institutions generate excess earning over the total cost in the long run (Herath and Ahmad, 2007).

There are two current imperatives within the microfinance sector – “increasing outreach” and “improving sustainability”. There is, however, a creative tension between these two imperatives. On the one hand, if “increasing outreach” is taken to mean “more clients from a similar demographic”, then “outreach” and “sustainability” are effectively identical terms. Increasing client outreach provides economies of scale that in turn makes the microfinance program more efficient and therefore more sustainable, at least in immediate financial terms. It is a case of “more of the same”, while continually seeking incremental improvements in operational efficiency (Seibel, 2002). On the other hand, if “increasing outreach” is taken to mean “targeting hard-to-reach clients” such as people living in remote areas, then “outreach” and “sustainability” are effectively competing terms. Reaching clients in remote areas is relatively expensive, which makes the microfinance program less efficient and therefore less sustainable (Mathison, 2005). Sustainable institutions reach the wide arrange of clients and can contribute to the development process (Caudill et al, 2009). Financial sustainability is vital to serve clients permanently and “the only way to make an impact far beyond what donor agencies and most governments can fund” but is “not an end in itself” (Praveen, 2009).

Sustainability is not an end in itself but rather a means to the end of improved social welfare (Navajas et al, 2000). Outreach and financial sustainability are “the two core drivers” in
the industry while “the latter has come to dominate the agenda” threatening the social mission of working with the poor (Lensink et al, 2008).

Serving the very poor and attaining sustainability is a challenge to the microfinance industry. There is a common assumption in microfinance operations that tradeoffs exist between outreach and sustainability. It is not possible to conclude exactly on outreach and sustainability as mutually exclusive goals. It is difficult to presume that deeper outreach is a constraint to sustainability and vice versa (Caudill et al, 2009). There are differences and debates on “tradeoffs between outreach, impact, and sustainability” in microfinance operations and “what to do about them”. Reaching the very poor and becoming profitable is a debate among MFIs (Praveen, 2009).

The poorest can use financial services for improving their economic and social well-being without endangering institutional sustainability of the service provider (Mathison, 2005). There exists “no necessary tradeoffs between serving large numbers of the poorest households and the attainment of institutional financial self-sufficiency by any MFI” (Halder and Mosley, 2004). In fact, it takes longer to make a profit and become financially sustainable while working with the poor but not unattainable goal. The tradeoffs between achieving the two goals are “less acute than originally thought”. Provision of better quality services to the very poor is possible while covering full cost. The cross-cutting challenges of the industry are increasing the numbers of clients and reaching the poorest sections of the society at the lowest cost possible (Praveen, 2009).

Microfinance institutions focus on providing credit to the poor who have no access to commercial banks. While microfinance institutions try to be financially sustainable, they appear to be often loss making. The possible trade-off between efficiency and outreach is one of the most important topics in recent discussions on microfinance (Lensink et al, 2008). Some believe that only when sustainability is achieved can outreach be effective. Others believe that outreach is necessary to achieve sustainability. These issues are the main debate area in microfinance institutions.

2.2 Empirically Literature Review

In this section, the researcher would try to see some of empirical studies which can carried out related to MFIs outreach and sustainability. Hulme and Musley (1996) state that delivering small loans to the poor and relatively hard to reach clientele is inherently costly.
However, According to **weller and schriener(2002)** the relation depth of outreach and financial self-sustainability is multi-dimensional. Weller and scrieners finding put evidence against a wide spread belief that small loans are highly risky and associated with lower financial sustainability. The most comprehensive study of sustainability – Out reach tradeoff is by **Hermes, (2011)** using for 435 MFIs for the period1997-2007. He focus on the relationship between cost efficiency as a proxy for sustainability of MFIS and the depth of outreach measured by the average loan balance and worth borrowers. He concludes that outreach is negatively related to sustainability of MFIs. The results remain robustly insignificant even after taking into account a long list of control variables. This is consistent with cull et at (2009) who shows evidence of such trade-off from recent commercialization trend in Microfinance.

**Kipesh and Zhang (2013)** examined the presence of tradeoff between sustainability and, profitability and outreach using a panel data of 47 micro finance institutions for four years of 2008-2011 from mix market data using unbalanced panel regression analysis model. Using Welfarists approach the study found the presence of negative tradeoff between profitability and outreach to the poor. Under Insitutionalist view, the study found that outreach to the poor has a positive relationship with sustainability and profitability measures.

In Ethiopia the outreach and sustainability is not yet studied .However, there are few studies on the areas of outreach and financial performance. Areas of performance of microfinance insititutions and determinants of MFIs financial sustainability.

As per the study conduct of **Befikadu (2007)** on outreach and financial performance, it is found that MFIs are operationally sustainable measured by return and return on equity and industry’s profit performance is improving over time. He is also found that individuals MFIs outreach has shown increment over period of the study with different rate of growth leading industry’s outreach to rise in the period from 2003-2007 on average by 22.9%. He also conclude that the institutions’ financial sustainability is improving from time to time measures in terms of ROA and ROE.

**Alemayehu Yirsaw (2008)** has made study on the performance of six Micro Finance Institutions in Ethiopia from profitability and sustainability point of view, the study found that most of the microfinance institutions were doing well in terms of operational self-sufficiency and financial self-sufficiency. According to the result of the study as the size of MFIs decreases in terms of gross loan portfolio, operational self-sufficiency and financial self-sufficiency decreases as well.
On the other hand, another study by Letenah (2009) on performance analysis of sample of Ethiopian MFI indicates that Ethiopian MFIs in general are poor performers on depth of outreach. They are not reaching the poorest of the poor. They are also poor in terms of the ratio of GLP to assets, allocating a lower proportion of their total assets in to loans. All MFIs are good at breath of outreach, cost management, efficiency and productivity. They also charge low interest rates. The finding also indicates that the profitability and sustainability of the MFI depend on their size. From a simple correlation analysis it is found that there is a trade-off between serving the poor and being operationally self-sufficient. MFIs age correlates positively with efficiency, productivity, the use of debt financing (commercialization) and OSS.

Degefe (2009), on his studies of Elixir or poison of microfinance of microfinance in Ethiopia, scale of outreach of microfinance in Ethiopia increased from time to time, though not all MFIs showed equal growth. He also concluded that average loan size is the lowest in sub Saharan Africa. Bayeh (2012) following a quantitative approach using a balanced panel data set of 126 observations from fourteen MFIs operating in Ethiopia over the period 2002-2010, reveals that microfinance breadth of outreach, depth of outreach, dependency ratio and cost per borrower affect the financial sustainability of microfinance institutions in Ethiopia.

2.3 Summary and Literature review gap

From the literature Review, the researcher found that amongst other forms of sustainability, financial sustainability of MFIs is emphasized in previous studies as a requisite for survival and Existence to continue offering financial products to the poor.

There are two kinds of financial sustainability measures that could be used in assessing MFIs performance that is operational and financial self-sufficient (Meyer.2002) According to him, Operational self-sufficient is when the operating income is sufficient enough to cover operational cost like salaries expense, supplies expense, Doubt expense and other administrative expense.

Financial self-sufficient (referred to as high a standard measure) is when MFIs can also cover cost of funds that value at market and others forms of Subsidies received when they are valued at market prices (Befekadu,2007). Depth is poverty level of clients, breadth is measure clients, length is year services, worth is clients willingness to pay, cost is price and transaction costs by clients and scope is types of contracts (Navajas,2000). MFIs is are usually faced with the challenge of reaching the poor and while at the same time expected to be financial sustainability (Cheminig ‘wa, 2013). Therefore, the relationship between social performance
(Outreach to poor and financial performance (sustainability) of MFIs may be a trade-off. There are attempts, which were conducted on financial performance of MFIs in Ethiopia, but, they are less rigorous in methodology. Another few studies were carried out on factors affecting MFIs sustainability; among others overlooked proper analysis of the link between loan outreach and financial sustainability. The results from related studies carried out on MFIs outside Ethiopia varied with studies and economies which insures the value added by the study. The researcher therefore, wanted to evaluate the knowledge gap in microfinance literature on Service Outreach and sustainability of MFI as a Case of OCSSCO.
CHAPTER THREE
METHODOLOGY OF THE STUDY

3.1 Types of research design

This study could be designed in the form of cross sectional design in which data collection using questioners and interview. The methodology would be used by research is descriptive approach both Qualitative and Quantitative data using samples of study area OCSSCO under Oromia surrounding Finfinnee special zone( OSFSZ) Sub branches.

3.2 Method of data collection

The study was conducted in Oromia surrounding Finfinnee Special Zone of OCSSCO Located 15 km away from Finfinnee to Western part of Oromia Government regional state. This study has applied both primary and secondary data collection method. The primary data collection sources has been used questionnaires and interview. The questionnaires were designed for clients of company by taking sample clients of the sub branches. The purpose of questionnaires was to obtain feedback from clients regarding their wealth condition and outreach performance of the company. It contained both close ended and open ended questions that indicate outreach and sustainability performance of micro finance institutions.

Interview questions were designed to ascertain the management’s view on the outreach and sustainability of the company and designed for deputy executive managing director (operation), Loan director, and senior loan officer, senior customer service officer at head office, zonal level and branch level. The researcher has used as secondary data collection sources such as audited annual financial report 2012-2016, independent auditors report and financial statement of the company. In addition to those source of data collection reports of the zonal and branches, manuals and information from the National Bank of Ethiopia (NBE) would be used as data sources.

3.3 Method of sampling and sample size determination

For this study the researcher used Simple random sample techniques to collect the required data from different sources. Currently, OCSSCO has 18 zonal offices opened over whole of Oromia regional Government state (OCSSCO,2016).

Individual sample households are the sampling unit/element of this study. Hence, 147 sample household would be selected from total population 2702 based on the simplified formula developed by Yamane (1967:886) at 95 percent confidence level and 8 % percent of precision for this investigation.
The formula is:

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

Where \( n \) is sample size, \( N \) is population size and \( e \) is the desired level of precision. This figure would be allocated to each sample according to their population size (probability proportional to size (PPS) random sampling technique would be selected respondent households.

3.4 Data Analysis

The researcher used both Quantitative and Qualitative data analysis method and for numerical data analysis would be used ratio analysis, trend analysis and descriptive presentation have been used as necessary for data presentation and analysis. For Summarizing, organize and presentation the data analyzed by using SPSS Program software and MS Excel application.
CHAPTER FOUR
DATA ANALYSIS AND PRESENTATION

For the purpose of detailed analysis of the result obtained breakdowns of the section in to four parts are made. Part one presented the overall service delivery and related issues of OCSSCO based on the data obtained from the survey questionnaires and interview. The outreach performance of the institution is presented in the second part of this section. In the third part of this section the researcher presented sustainability performance of OCSSCO by calculation of ratios that indicates the productivity, efficiency, profitability, financial and operational self-sufficiency, and loan portfolio quality.

4.1. Credit and saving provision methods of the company

4.1.1. Credit provision

4.1.1.1. Types of loan

The Company provides Different types of loan facilities to its customers. These are: Group based- it is the one product loan the company that is given for urban group based and rural group based for one year MSE Loan (is a type loan product of the given small micro enterprise at rural and urban areas), Individual Loan(A Loan provides to Individual person through Collateral or Guarantor present personally).

Housing is a type loan delivering for the purpose housing constructing depend on base of the house. Business loan is a loan that delivering the purpose of running business activities like shopping, fatting, petty trade, manufacturing, constructions etc and GPL (General purpose of loan delivering for employees recruited at government office or non-government organization also public organization those recruited permanent basis), WEDP Loan (Is a type of loan delivering for women Entrepreneurs those engaged in any business activities). The provides the above loan types for clients by Guarantee collateral and joint liability group members and these collateral different by product types of the loan. The urban group based loan and Rural Group based loan has joint a several liability and accountability for loan accessed by group. A guarantee his/her loan as well as the loan of group members by his/her personal property owned commonly with spouse (movable or immovable) that a least include land, cattle, plants etc. However, others loan the collateral might be housing or basic salary taken as guarantee or collateral depended on the type of loan.
4.1.1.2 Loan Eligibility Criteria

In order to provide effective credit the company has its own selection criteria. Effective and profitable financial service delivery requires identifying who the potentials clients are and differentiating the market base on credit demand. MFIs know that very poor clients are among the potential market niche beyond the social perspective (Hulme, 1999).

In Case of OCSSCO the productive active poor with demand for such service are the target customers. Hence, as much as possible even if it is hard to set cut criteria to identify the poor, the company has established some selection criteria. Potential clients are those economically productive urban and rural poor lacking access to conventional bank service because of lack of collateral provided as a security for banks. Loan applications are expected to be those in need of working capital and able to utilize the loan productive ventures. OCSSCO takes into account age, gender, personal characteristics, wealth Condition in selecting clients.

Some of the criteria used in selecting potential client for credit are potential clients need to be between 18-60 year’s age and economically active, poorest of the poor in rural areas or has low income urban areas, those have good credit history and have good reputation among their community areas and he/ she should present a business plan that also conforms the availability of the market for the product or service loan is requested for willingness to be joint group liability and accountable for group liability if there is default in his/ her group member legally capable for loan contractual agreement. The spouse of the borrower should agree and sign on the loan agreement 20% of the loan as pre loan saving that to be saved within six months especially for individual business loan and MSE Loan must be permanent resident in the Ganda(Kebele) for at least one year and above, physically fit to the intended business, committed to save compulsory and voluntary savings, MSE Certificate and Renewed Business License( MSE Loan), long/short term trainings by TVET and matching collateral and also guarantee letter or Credit Guarantee certificate (OCSSCO,2014).

Also this policy could help to avoided credit risk and also could be determine the profitability and sustainability of the company. Although, this policy was very important to enhance potential of the company and can increase the profitability of the given micro finance institution.
4.1.1.3 Loan Disbursement

Oromia Credit and Saving Share Company advanced credit only to income generated activities. There is no consumption loan is granted. The company finances activities like farming, petty trade, fertilizer loan, micro enterprise loan, General purpose loan, housing loan, business loan WEDP Loan and others loans those direction given from concerned body if there. The loan size the clients requested is to be decided considering various factors. Those includes the type of activity the client engaged, borrower’s capacity (value of collateral), credit history client’s, feasibility work place, considering liquidity position of the company and considering as per policy of regulators bodies. As per regulation of the NBE the maximum loan to given to a single borrowers for a group based clients is birr 15,000 and maximum average group based loan size for 1st cycle borrowers is birr 2000-3000 also clients accumulated compulsory saving balance should be taken into account to determine the subsequent loan size for report borrowers (OCSSCO, 2013).

Through joint group liability lending System the loan size ranges from 3000-15000br but individuals loans, MSE Loan, WEDP Loan, and others product loan size of loan depend on the features of product loans, availability of fund, feasibility of business loan, location of business loan and approved of loan size extended up to Board of directors. The Client of should understand and be aware of credit terms of repayment, interest rate and others rules and producers’ of loan delivered by company

4.2 Mode of Repayment

OCSSCO advices customers should be encouraged to repay whenever they earn extra money before the repayment schedule (pay as your earn payee approach (OCSSCO, 2014). OCSSCO have different of mode of repayment loan depend on the product of features (types of loan) delivered to customers. Mostly, all rural group based loan repaid within one year but urban group based repaid loan monthly, Quarterly and years. However, the loan period of both group base loan are one year but others products of loan period great than a year like MSE Loan, WDEP Loan, GPL Loan, Business loan and etc.
4.3 Saving products

The objectives of saving are to help the clients gradually build up income so as to improve their asset position and eventually to enable them to run their business from their own sources. Saving are the major part of sustainable financial service delivery to the poor. Acceptance of saving deposits may “Represents the more valued financial services in many instances. OCSSCO collects saving from the clients, non-clients (Voluntary savers) as well as the public and private organizations. There are different saving products rendered services by OCSSCO.

4.3.1 Compulsory saving

This the type of saving products related with loan products and every loan clients is required to deposit saving of loan she/ he / they applied for. After taking credit to save the compulsory saving products is mandatory but amount saved different from product to products of loan. The moment he/she has repaid all loan amounts with the interest, she / he can withdraw the total saving amount, however, all OCSSCO Loans require pre loan saving as precondition except group based loan.

4.3.2 Voluntary saving

This type of saving can be practiced by the any one irrespective of the loan. It is categorize into different types like pass book saving, Fixed time deposits, Coin box deposit, Retirement savings Current account savings. Handhura and Sooramaa (minor and old age savings), Non-interest bearing saving.

All voluntary saving products are interest rate calculated at 5% except Minor and old age saving their interest rate depend on a given period. Minimum period of time of both saving products (handura and soromma) five years.
4.2 Socio- Economic condition of clients of the organization.

Under this part the socio–demographic characteristics of the clients including their Age, sex, marital status, family size, education background, and Occupation are explained. In addition to the clients wealth conditions in terms of housing, utilities condition, asset of ownership and source of income generated are discussed here.

4.2.1 Socio- Demographics characteristics of clients

1 Age

![Pie chart showing Age distribution]

Source: own computation (pin-Chart of Age Respondents)

Age is one of eligibility chartered of borrowing to loan from the company. This company has rule that says “potential clients need to be between 18-65 and productive age and also this result similar to OCSSCO(2014). Above the age of clients in Oromia credit and saving share company mostly in productive age and economically active age.. This means 58.50% of 41-65 age and 41.50 of 18-40 age. This indicates that all clients of the institution were in the productive age
group and economically active meaning that they can work and increase their income. Due to this they can pay what they can borrowed from the company and also can minimize the credit risk, sustain and increase profit of the company and this indicate that the performance of the company come to sustained & cover operational cost of the company in order to expand its branch to reach with the poor society.

2 SEX

Source: Own computation (Pin chart of sex respondents)

As could observed from the above pin chart mostly clients of the company are male .i.e. 58.50 % are male and 41.50 are female clients. This shows that in the institution the woman not give attention for credit to make them self free from long history of economic dependency within home and in the society as a whole. But OCSSCO believed that lending money for women is better than male because women are less extravagant and more responsible for saving and efficient use of money in the home than male. However, the custom of the society percent of the female participation in the institution is less than male.
4.2.3 Marital status

Source: Own computation (Chart of marital status respondents)

As we can see the above chart of marital status respondents conducted it depict the most clients of the company are married households, i.e. the company prefer those have responsibility and accountability for their family and some single borrowers not repay loan by voluntary because they live dependent up on their family and also in the eyes the company they are not faithful when compare with married clients. Also the company takes attention to married clients to minimize credit risk and maximize culture of saving mobilization that can enhance the sustainability and profitability of the company.
4.2.4 Occupation status respondents

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farming</td>
<td>93</td>
<td>63.3</td>
<td>63.3</td>
<td>63.3</td>
</tr>
<tr>
<td>Handiwork</td>
<td>2</td>
<td>1.4</td>
<td>1.4</td>
<td>64.6</td>
</tr>
<tr>
<td>Civil Servant</td>
<td>3</td>
<td>2.0</td>
<td>2.0</td>
<td>66.7</td>
</tr>
<tr>
<td>Petty Trade</td>
<td>37</td>
<td>25.2</td>
<td>25.2</td>
<td>91.8</td>
</tr>
<tr>
<td>Daily Laborer</td>
<td>1</td>
<td>.7</td>
<td>.7</td>
<td>92.5</td>
</tr>
<tr>
<td>Service Provider</td>
<td>1</td>
<td>.7</td>
<td>.7</td>
<td>93.2</td>
</tr>
<tr>
<td>Tailor</td>
<td>10</td>
<td>6.8</td>
<td>6.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>147</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Own Computation (Occupation respondents)

It is known that Microfinance institutions are founded to provide credit and saving service to the rural poor who are unable to get banking service because of the access of banks in the nearby areas and lack of minimum collateral to borrow money. The above table depict that farming dominant occupation 63.3% and 93 frequency of the clients of the company. But farmers less aware and less experienced in the conducting business and capital utilization than the rest of customers engaged in other occupation.

Next to farming highly respondents occupation petty trade 25.20% when compare with others occupation. i.e Any micro finance institution engaged to run business activities to generate profit in order to maximize their wealth. This activities depend on the money circulation of daily, weekly quarterly monthly and yearly of the company. Therefore, when other occupation with petty trade activities increased in a month higher because of this reason company more focused petty trade activities in urban areas especially women trade because they repay credit in timely and more savers.
4.2.5 Educational level

<table>
<thead>
<tr>
<th>Educational level</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illiterate</td>
<td>25</td>
<td>17.0</td>
<td>17.0</td>
<td>17.0</td>
</tr>
<tr>
<td>Basic Education</td>
<td>48</td>
<td>32.7</td>
<td>32.7</td>
<td>49.7</td>
</tr>
<tr>
<td>1-4 grade</td>
<td>29</td>
<td>19.7</td>
<td>19.7</td>
<td>69.4</td>
</tr>
<tr>
<td>Valid 5-8 grade</td>
<td>26</td>
<td>17.7</td>
<td>17.7</td>
<td>87.1</td>
</tr>
<tr>
<td>9-12 grade</td>
<td>16</td>
<td>10.9</td>
<td>10.9</td>
<td>98.0</td>
</tr>
<tr>
<td>college and above</td>
<td>3</td>
<td>2.0</td>
<td>2.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>147</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Own computation (Educational survey, 2017)

It is obvious that education is the best tool for the development of the country. The way to solve the various problem in educating the productive age by using not only the formal education but also by non-formal education. Regarding the literacy level of the clients of OCSSCO, as the table above indicated 17% of them are illiterate who are not able read and write a word. In addition clients basic education, 1-4 grade, 5-8 grade, 9-12 grade and college and above 32.70%, 19.70%, 17.70%, 10.90% and 2% respectively. From this we can analysis that majority of the clients of OCSSCO are less literate. The main reason this clients live in rural areas and poor economic condition not get the chance to continuing their education. However, most of clients of OCSSCO have capacity to read and write some of note and also can sign their signature on the format necessary of the company because 32.70% of clients respondents have been got chance of learned the basic education.
4.3 Wealth Condition of Clients

To analysis the wealth conditions of clients of OCSSCO the researcher used the income, expenditure, asset ownership and the housing and utilities conditions of clients.

4.3.1 Income and Expenditure of clients

The majority of the clients of OCSSCO their source income was agriculture that annul income was comes from farming and related activities. i.e 70% of farming 1.4% salary 27.90% of trading of respondents respectively. This indicate that majority of the clients of OCSSCO are engaged in farming activity and to take loan to expand, to develop and increase the farming productivity level. The expenditure of the clients of OCSSCO in average mostly their expenditure incurred for food, clothes, other than for education fee and furniture. This indicate that their income and expenditure of the clients not mismatch each other’s because most of the clients depend on the farming and the cash inflow of the clients at one in yearly and cash out flow of the clients in through the year. Therefore the outreach to poor of the poorest still the problem of the company and saving mobilization in rural remote areas not reached.

Source: Own computation

This chart of indicates the clients of the company have in the questioners gives respondents and mostly clients of the company have 76.7% 1-10 cattle this implies that the average cattle ownership was increased after the clients are using the services of OCSSCO. This indicates that OCSSCO is helping the rural poor to have their own cattle for farming activity.
4.4. Customers of feedback on service delivery of the company.

In this sub section of the clients of feedback on credit delivery and utilization, employee service delivery and customers handling has been analyzed and discussed.

Loan delivery and utilizations

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>friends and relatives</td>
<td>93</td>
<td>63.3</td>
<td>63.7</td>
<td>63.7</td>
</tr>
<tr>
<td>Local money lenders</td>
<td>35</td>
<td>23.8</td>
<td>24.0</td>
<td>87.7</td>
</tr>
<tr>
<td>Credit and saving Association</td>
<td>18</td>
<td>12.2</td>
<td>12.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>146</td>
<td>99.3</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
<td>1</td>
<td>.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>147</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Own computation (credit before members of OCSSCO)

As shown the above table the main source of credit before the establishment of OCSSCO were Credit from friends and relatives, 63.30%, followed by local money lenders(usuries) 23.80 % others credit and saving associations 12.20% and 0.7% have no experienced lending money
As it is clearly depicted in the above table the clients of the OCSSCO stayed in less an two years 6.9% of clients respondents, 51.70% stayed 3-5 years, 31.70% of the clients respondents stayed 6-8 years and 9.70%of clients respondents 9-11 years stayed in the company. As we can observe the majority of the client’s percentage are using the service of the company for a long of period of time after its establishments. This indicate that the company is their first preference for credit and saving facilities .and 51.40% client respondents prefer individuals, 42% of clients respondents prefer group loan and 6.3 % of clients respondent of small and micro enterprise .i.e because of group liability problem the clients of the company more choose individual and size of loan of group loan was not great than 15000.

In addition stayed period of clients the loan size of repeat client determined in the considered of stayed period of clients and amount of group saving of client had in the company and credit oh history of clients from others micro finance institutions. As questionnaire of loan amount size as outstanding asked the clients of respondents molly clients of the outstanding loan amount of each individuals of clients in the Company was 90001-12000 in percentage 49.7% of clients of respondents ,5001-9000 in the percentage of clients respondents 32.20% and others 9.10% for both the loan size 3000-5000 and 12000-15000. This indicate half the clients of OCSSCO Repeat clients and the outreach clients of the company not much this and new clients joined in the company very low and police of loan size of the company one the factors affects the outreach of clients in the company.

The purpose of loan take in the clients of OCSSCO for fertilizer ,fatting , purchase of ox and handcraft of clients of respondents 47.90% 20.80% 17.40 and 8.30 respectively other remain percentage for purpose of activities. However, the loan of the company was not delivered for the purpose of consumption (OCSSCO,2014).As per police of the company of the company the loan size of group through collateral lending system ranges from 3000-15000(OCSSCO,2014).

However ,the individuals loan size depend on the business plan of the loan and the type collateral also feasibility place of market center and business location and type of business activities loan requested approved at different level of loan committee of the company.
As chart of depicted in the above 89.90% and 11.10% the clients of respondents took a loan which have a credit 1-2 and above two years respectively. This indicate that most of the clients of the company prefers loan which is repayable within one to two years periods.

4.4.1 Service Delivery and Customers handling of employees

Majority of 70.30% clients learnt about the company from their friend and relatives for the first time. The remaining of 28.30% of got the information from clarification given by employees of OCSSCO and of the clients members of the company as a result of information obtained from advertisements on public media like radio advertising and TV advertising as the above percentage indicated that the promotion was limited to the staff and the community network. This way of promotion is acceptable as there high demand for the service and poor communication media in the rural areas and also communication of department remaining percentage of shared and not worked in well in advertising promotion the products of the company delivered in the society.

Source: Own computation (Years of loan disbursed) of OCSSCO
<table>
<thead>
<tr>
<th>Distance from Home (km)</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 7 km</td>
<td>17</td>
<td>11.6</td>
<td>11.7</td>
<td>11.7</td>
</tr>
<tr>
<td>8-12 km</td>
<td>38</td>
<td>25.9</td>
<td>26.2</td>
<td>37.9</td>
</tr>
<tr>
<td>13-17 km</td>
<td>16</td>
<td>10.9</td>
<td>11.0</td>
<td>49.0</td>
</tr>
<tr>
<td>18-25 km</td>
<td>54</td>
<td>36.7</td>
<td>37.2</td>
<td>86.2</td>
</tr>
<tr>
<td>Above 25 km</td>
<td>20</td>
<td>13.6</td>
<td>13.8</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>145</td>
<td>98.6</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td><strong>Missing System</strong></td>
<td>2</td>
<td>1.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>147</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Own computation (Distance of the sub-branches from the clients residents)*

From the above table analysis we can observe that 37.20% of the clients of respondents expected travel 18-25 km from their home to the sub branches. Additional less than 7 km 11.70% clients of respondents, 8-12km 26.20% clients of respondents, 13-17km 11% clients of respondents and above 25 km 13.60% clients of respondents. This implies that the company is not better reaching the rural poor by opening sub branches office. However, when compare with others lack of accessibility of public service and lack of economic infrastructures in rural remote areas of Oromia regional state reaching to rural poor clients is a better. i.e. around of 86.40% of below of 25 km from far away home clients of OCSSCO and Sub-branches of clients opened and gave fully delivery service of products of the company. Accordingly the report of June 2015/2016 around 316 branches fully operated in Oromia regional state in woreda (OCSSCO, 2016)
As the above chart depicted that customers of handling and treatment of employees mostly it was good, satisfactory and excellent 30.30%, 29.0% and 25.50% respectively of clients of respondents responded. And the remaining of the percentages of clients respondents poor and very good 7% and 13.8% respectively. This indicates that treatment and handling of employees of customers in relatives it was good in the company of OCSSCO and follow up the clients and give advice which necessary for clients and also it maintained the good will of the company. This implies that OCSSCO Pay attention for its clients/customers because Company and all concerned body of think as customer is the king.

4.4.2 Customers rating on interest rate

The interest of charged by OCSSCO on loan 17% of for both installment and term loan when is somewhat higher than the interest of banks (CBE). This interest rate to be charged on loans and advanced extended a microfinance institutions shall be determined by the board of directors of each microfinance institution (NBE Directives No MFI/13, 2002). The micro bank service charged by 6.25%-17% rate of interest for its loan (OCSSCO, 2014). Most of the clients compare the interest rate charged by OCSSCO with informal lenders especially local money lenders (usuries). As per the information obtained from the respondents usuries lend money with 20% above rate of interest per month.
Source: Own computation (Chart of customers rate on interest rate of Loan)

Having these points in mind, rate of interest of loan seems fair for the majority clients respondents responded the interest rate of loan of the fair 40.10%, 34.50% of clients respondents high, 18.60% of clients respondents responded very low and 6.20% of clients very high.

From the above chart we can conclude that the loan interest rate of the company was moderate when compare other Micro finance (private micro finance). When we see interest rate of paid for saving it is 5% for all saving products which monthly capitalized (OCSSCO, 2014).

However, depend of saving products of stayed periods and the agreement customers with company interest rate for these saving products interest charges up to 12% especially for handhura saving product (OCSSCO, 2013). Out of the total sample respondents for 59%, 38.90%, 1.40% and 0.70% of the respondents the rate of interest paid for saving products is fair, low, very high and high respectively. This indicate that company better pays interest for saving products from analysis of clients respondents and when compare with other financial institution pays more interest for compulsory saving products. As per the majority of the respondents indicated
(i.e. 60%) of the company pays better interest for the amount of money saved. In general the clients of rated the overall service delivery of the company as shows in the chart below.

![Service Delivery Chart]

*Source: Own computation (over deliver service respondents)*

This indicates the chart of service over all delivered to customers by OCSSCO. This chart depicted that the clients of respondent of the company regarding the overall of service delivery of the company from respondents 36.60% good, 27.60% excellent, satisfactory 26.90%, very good 7.60% and poor 1.40%. This indicate that most of service delivered by OCSSCO to customers when summarized it was in average moderate service and good service even if there are some areas that need improvement, the company got acceptance from the public in its efficiently and effectively in service delivery and customers handling.

**4.4.3 Training and Development in the Company**

The company have formal training program for both employees and customers in different time. If the employees is a newly hired employee in the company she / he must take training like how to perform the activities he /she is assigned, credit and saving related issues, how to handle and serve customers, police and producers of the company, vision and mission of the organizations, duties and responsibility of his / her of employees.
In addition to this if the new employee is hired as a customer service officers he, she must take additional training such as how to form groups and assessment of clients socio-economic conditions. For the remaining employees the company provides continuous training as per the requirement to improve employee’s productivity level more and more.

In addition, the company pays of college payment for its employees for further education and development. The company also gives training for its customers in the area of credit and saving. In addition the training was on introducing the company, its service and products, group and center information, duties and responsibility as group members, importance of saving and other. The training narrow the information gaps the clients and company also activate clients in provision service of the company.
### 4.5 Credit and Saving Outreach of OCSSCO

#### Indicators/ Years

<table>
<thead>
<tr>
<th>Credit Outreach</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO. branches</td>
<td>247</td>
<td>297</td>
<td>305</td>
<td>312</td>
<td></td>
</tr>
<tr>
<td>NO. staff</td>
<td>2,674</td>
<td>3,346</td>
<td>4,125</td>
<td>4,558</td>
<td>4547</td>
</tr>
<tr>
<td>No. Active borrowers</td>
<td>546,602</td>
<td>724,711</td>
<td>809,318</td>
<td>707,615</td>
<td>815929</td>
</tr>
<tr>
<td>% percentage of women</td>
<td>42.27%</td>
<td>32.76%</td>
<td>34.49%</td>
<td>31%</td>
<td>30.2</td>
</tr>
<tr>
<td>Loan portfolio, gross</td>
<td>1,721,469,410.4</td>
<td>2,423,941,919</td>
<td>3,546,641,203</td>
<td>3,498,478,787</td>
<td>3429127427</td>
</tr>
<tr>
<td>Average loan balance per borrower</td>
<td>3149.4</td>
<td>3344.7</td>
<td>4382.25</td>
<td>4944.04</td>
<td>4202.72</td>
</tr>
</tbody>
</table>

#### Saving Outreach

<table>
<thead>
<tr>
<th>Total Voluntary saving</th>
<th>780,554,332.00</th>
<th>1,332,790,114.26</th>
<th>1737765146</th>
<th>2,130,721,261.00</th>
<th>1968680851</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total compulsory saving</td>
<td>216195033</td>
<td>335,303,517.40</td>
<td>474765146</td>
<td>1,706,634,701.00</td>
<td>427027937.7</td>
</tr>
<tr>
<td>Total saving</td>
<td>996,749,365.00</td>
<td>997,486,626.86</td>
<td>2212530292</td>
<td>3,837,355,962</td>
<td>2395708789</td>
</tr>
<tr>
<td>Saving to loan ratio</td>
<td>0.57</td>
<td>0.41</td>
<td>0.62</td>
<td>1.09</td>
<td>0.7</td>
</tr>
</tbody>
</table>

*Source: performance report of OCSSCO 2012-2016*
As of the end of 2016 shown on the table, OCSSCO has given an employment opportunity for more than 4500 staffs in 316 branch offices. It has been able cover 90% woreda of the region number of active client of OCSSCO increased from 546222 to 599192. In addition, percentage of women borrowers has shown decrease from 42.27 (2012 to 30.20 (2016) i.e. 29% the percentage of women borrowers declined this indicate the quieted client highest in past of fifth years and company attention the participation of borrowers was low as observed from the status of report 2012-2016. Since its establishment there is an increase both in terms of loan portfolio and average loan balance from year to year loan portfolio has increased from birr 1721469410.40 to 3432764132 (99.40%) and average loan balance per borrowers 3149.40 to 4202.72(33%). This indicates that the depth and breadth out reach of the company is good. OCSSCO has mobilized net saving of birr from 996749365 to 23957087890.70 over 100% increased saving mobilization in the company. This increase in saving mobilization helps company to finance its loan portfolio from saving and being sustainable enough. In fact , this shown an encouraging achievement on saving mobilization as well as a need to do more so as to cover all loan funds from saving. The deposit to loan ratio also increased from 2012(57%) to 2016 (70%). This indicates that the company’s loan portfolio comes from deposited money. Hence, the group of loan portfolio was higher than the increase in saving which need more effort to increase saving from public to support the portfolio.

4.6 Sustainability of performance of the company

Now a days ensuring sustainability to continue as going concern in the financial market is a hard obstacle to the microfinance industry. In this sub - section the researcher analyses the company’s sustainability position by giving a great emphasis on its operational and financial self-sufficiently ratio. In addition, productive, efficiency, profitability, financing portfolio and quality performance of the company are covered in this sub section.

4.6.1 Operational and financial self-sufficiently of OCSSCO

Operational sustainability accompanies the concepts of operational self-sufficiently (OSS) which measures operating revenues a percentage of operating and financial expense including loan loss provision expense and the like. If this ratio is greater than 100% the MFI is covering all of its costs through own operations and is not relying on contribution or subsidies
from donors to survive (Churchill and Frankiewing, 2006). OSS in general include all the cash cost of running MFI, depreciation and the loan loss reserve.

Operational sustainability actually refers to the future main ability of the MFIs OSS. For MFIs it is one of the major goals and achieve OSS in order to maintain viable and further grow in their operations. Financial Self-sufficiently measures the firm’s ability to generate revenue sufficient to cover both direct (operating) financing and loan losses) and indirect (cost of capital) expense of doing business. Measure of financial self-sufficiently below 100% indicates depending on donor funds or subsidies (ledgerwood, 1999). The FSS indicator measures the extent to which a MFI covers adjusted operating expenses with operational income This ratio is calculated by adjusted operating income

Adjusted operating expense

Both the operational and financial self-sufficiently ratio of OCSSCO is shown in the chart below

Source: Independent auditor report 2012-2016(OCSSCO)

As shown in the above table, OCSSCO both OSS and FSS are over 100% i.e indicates that without subsides others or donation by its own operating income covers its costs and capital costs of the company. When the sum up, on average OCSSCO of operational self-sufficient and financial self-sufficient 155% and 136% respectively over the five year period. this indicate that OCSSCO has ability to generate sufficient financial revenue from its loan portfolio and other revenue related to financial services to cover its financial expenses, loan loss provisional expense and operational expenses. This implies OCSCCO has strong financial capacity to serve its clients without the donation external fund and subsidies from the government. AS management of the
company said that the most source fund from saving collection and donation fund but the contribution fund very low relative with saving collection status because of this sustainability of the company depend on its lending and what is generated interest from lending

4.6.2 Productivity and Efficient

Measuring the productivity and efficiency is helpful to assess the capacity of MFIs to generate revenue and resource use ability to wealth maximization. Provision of financial services and products at the minimum cost possible is the proverb of efficient service delivery (Befekadu, 2007). The Productivity ratio is the case of MFIs focuses on the capacity of staffs and customer service officer to serve as many clients as possible. The efficiency ratio measures the ratio or percentage of operating and personnel expense relative to loan portfolio (Bamlaku, 2006). The lower operating expense ratio indicates the lower expense relative to portfolio outstanding. Usually costs of credit disbursement are higher than costs of accepting saving deposits. The efficiency ratios include operational costs ratio, cost per unit of currency hand, cost per borrower. As a base operating cost ratios of 13% and 12% is a good indicators for successful MFIs (Ledgerwood, 1999).

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowers per staff</td>
<td>204.42</td>
<td>216.60</td>
<td>196.20</td>
<td>155.25</td>
<td>178.12</td>
</tr>
<tr>
<td>Borrowers per CSO</td>
<td>1168.285</td>
<td>878.4376</td>
<td>706.8279</td>
<td>586.25</td>
<td>537.90</td>
</tr>
<tr>
<td>Operating expense/loan portfolio</td>
<td>5%</td>
<td>5.60%</td>
<td>7.9%</td>
<td>8.4%</td>
<td>6.8%</td>
</tr>
<tr>
<td>personnel expense / loan portfolio</td>
<td>0.03</td>
<td>0.03</td>
<td>0.04</td>
<td>0.04</td>
<td>0.06</td>
</tr>
<tr>
<td>Cost per borrower</td>
<td>173.75</td>
<td>189.01</td>
<td>295</td>
<td>409</td>
<td>534.06</td>
</tr>
<tr>
<td>personal Allocation cost</td>
<td>17%</td>
<td>25%</td>
<td>28%</td>
<td>26%</td>
<td>24%</td>
</tr>
<tr>
<td>loans per staffs</td>
<td>597196.9</td>
<td>724429.6</td>
<td>859791.8</td>
<td>767546.9</td>
<td>453129.47</td>
</tr>
<tr>
<td>loans per CSO</td>
<td>3612906.38</td>
<td>2938110.8</td>
<td>3097503</td>
<td>2898491</td>
<td>3081475.9</td>
</tr>
</tbody>
</table>

Source: Performance report 2012-2016(OCSSCO)
Efficiency and productivity indicators examine the intent by which company deliver full financial service in the most cost effective manner while maximizing their services using a nominal amount of resources. From the above table the researcher evaluating OCSSCO in case of Cost per borrowers increased from years 2012-2016 this indicate the cost incurred for serve a single active borrow. It informs company how much it must earn from each client to profitable. On average OCSSCO incurred expense for each client borrow 320.30 per client borrower. However, on average it cost Ethiopia micro finance institutions birr 206 to serve a client (AEMI Bulletin, 2010). From this what we observed that OCSSCO the cost incurred for each client high because of increased personnel expense and administrative expense incurred to serve the client. In addition to this Operating expense per loan Portfolio increased from 5% to 6.80% this indicate that controlling cost with increased with portfolio un efficient i.e. the operating expense of the company increased especially 2013-2015 because of increased provision loss expense and increased inflation and also increased numbers staffs and made adjustment for salary employees. When the Researcher Analysis personnel allocation cost of OCSSCO was 24 in 2016 G.C which means the company resource allocation is good status performance. i.e. OCSSCO in terms of human resource utilization was a productive company. In other hand borrowers per customer service officer used helps measure personal productivity of customer service office in case of the above table the ratio of borrowers per CSO of OCSSCO was decreased from 2012-2016 by 54%, this indicate that for effectively managing and monitoring in order to serve client its efficient and productive and to minimize the cost incurred for transportation that allocated for center meeting every month and also to minimize risk credit and to minimize staffs turnover of the company borrowers per staffs also decreased in the past of five in OCSSCO this indicate that company give attention to work Quality in order to managing and serve properly clients.

4.6.3 Profitability

Profitability is the ability of an organization to generate earning and make a profit and provides an insight into the degree of success of the owner’s investment (Atrill and McLaney, 2004). Profitability indicators measure financial performance of a firm over a period of time. It is useful for both internal and external stakeholders to assess profitability of the business. To show
the profitability of the institution ROE, ROA, Yield on Portfolio and Profit Margin ratios are used.

Return of Assets (ROA) Measures the average net income earned on a single currency owned and indicators the kinds of return the assets are generating. High return implies good utilization of assets. Return of Equity (ROE) refers to the maximum return available to shareholders. ROA gives the rate return earned on net worth or equity invested. High return implies happy shareholders or owners. Yield on portfolio measures the percentage of net income for every birr in portfolio. Yields measures ultimate profitability. The higher the ratio the more profitability each currency lent (Ledgerwood, 1999). Always the highest income source for MFIs is their portfolio whereas the major source of expense are operating expense. OCSSCO earns financial revenue from loan portfolio, interest income saving account in bank, service charge, membership fee, insurance premium collection, penalties, and others source like investment. In addition the company’s financial activities also incur cost of doing business such financial charges, provision for doubtful debt, banks charges, insurance payout and so on. Profitability organization generate revenue that exceeds total expense. The profitability measures of OCSSCO are shown in the following table

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>4.70%</td>
<td>4%</td>
<td>3.5%</td>
<td>6%</td>
<td>5.50%</td>
</tr>
<tr>
<td>ROE</td>
<td>17%</td>
<td>15%</td>
<td>18%</td>
<td>23%</td>
<td>19%</td>
</tr>
<tr>
<td>Yields on gross portfolio</td>
<td>14.90%</td>
<td>14.80%</td>
<td>15.50%</td>
<td>0.20%</td>
<td>0.20%</td>
</tr>
<tr>
<td>Net profit</td>
<td>106,297,938</td>
<td>124,729,483</td>
<td>178,447,290</td>
<td>279,113,973</td>
<td>283,794,178</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>190,255,852</td>
<td>244,886,593</td>
<td>397,597,612</td>
<td>577,505,016</td>
<td>599,938,464</td>
</tr>
<tr>
<td>Interest income/Total income</td>
<td>186</td>
<td>222</td>
<td>303</td>
<td>240</td>
<td>243</td>
</tr>
<tr>
<td>Donation/Total income</td>
<td>141</td>
<td>83</td>
<td>65</td>
<td>38</td>
<td>39</td>
</tr>
<tr>
<td>Operating Expense/Total Expense</td>
<td>59</td>
<td>53</td>
<td>62</td>
<td>60</td>
<td>69</td>
</tr>
</tbody>
</table>

Source: Independent Auditor report 2012-2016 (OCSSCO)
As the table presented in the above most of indicators of portability was increase and this indicate that the sustainability of the company. When the researcher discussed in each of indicators of profitability in the above table from 2012 years up to 2016 fiscal year. ROA is a measures of how well uses its assets to generate return in order to got profitability of the company in this case OCSSCO Return on assets increased from year to year what we observed and concluded that OCSSCO used its assets to generate return.

In addition, ROE also increased from 2012-2016 year i.e. 17% to 19 respectively. it was indicate the Return of Equity of the OCSSCO more profitable regardless of underling’s funded financial structure and Yields on gross Portfolio also increased in past of years in OCSSCO. this indicate that the ability to generate cash from interest, fees and commissions on the gross loan portfolio. And from this what we summarized yields on gross portfolio of the company was good when with effective interest rate of the company. In general, Average of ROA, ROE and yields gross portfolio over five years 4.74, 18.40 and 17.04 respectively. Therefore, OCSSCO is more profitable.

### 4.6.4 Financing or Capital Structure

The Source of funding for OCSSCO are shareholders equity, donated fund, borrowing loan from bank, Accumulated retaining Earning, and saving mobilization collection.

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity /Asset ratio</td>
<td>28%</td>
<td>26%</td>
<td>19%</td>
<td>25%</td>
<td>29%</td>
</tr>
<tr>
<td>debt /Equity ratio</td>
<td>3.15</td>
<td>3.37</td>
<td>4.11</td>
<td>2.91</td>
<td>2.41</td>
</tr>
<tr>
<td>Deposit /loan ratio</td>
<td>59%</td>
<td>60%</td>
<td>66%</td>
<td>62%</td>
<td>65%</td>
</tr>
<tr>
<td>Deposit /asset ratio</td>
<td>53%</td>
<td>50%</td>
<td>50%</td>
<td>49%</td>
<td>47%</td>
</tr>
<tr>
<td>Gross loan Portfolio to Total assets</td>
<td>84</td>
<td>88</td>
<td>76</td>
<td>77</td>
<td>73</td>
</tr>
</tbody>
</table>

*Source: Independent Auditor report 2012-2016 (OCSSCO)*

As we observed from table of financial structure performance of the OCSSCO most of time E to A ratio varies from year to year, this indicate that the percentage of donation capital of equity in the OCSSCO different from year to year and this implies that E to A of OCSSCO from the table in 2012 and 2016 was highest 28% and 29 respectively this indicate in both two
years the donation of capital was high and its used to increase the stability of the OCSSCO and to support an increase of gross loan portfolio to total assets. In addition, debt to equity ratio of the OCSSCO from the above table depicted that varies from year to year. This indicate that debt times of in Equity of the OCSSCO in year 2012 to 2016 in an average 3.19 this indicate debt 3.19 times of equity of the OCSSCO. The deposit to loan ratio increased from 59% 2012 to 65% 2016 this implies that above the 60% of loan disbursed to clients from saving collection and saving mobilizations of the company this used the to an increased the investment of the country also increase job opportunity of the for unemployed.

In addition, deposit per assets ratio and gross loan portfolio to total assets in average 50% and 80% respectively. These indicate that OCSSCO highly participate deposit mobilizing in financing to an increased portfolio and properly utilizations of assets to generate income respectively.

4.6.5 Portfolio Quality

Rosenberg (2009, P.1) Defines loan repayment as how well is the lender collecting its loan collection has proved to be strong proxy to generate management competence, long experience with evaluating microfinance. It is refers to the health of this productive assets and the risk attached to it is detrimental to the institutions current performance as well as future prospect on generating higher revenue and better outreach to the poor. Repayment rates, arrears rate, loan loss and portfolio at risk ratios are indicators used to assess the portfolio Quality (Ledgerwood,1999). Portfolio at Risk is a indicator or measures of Risk associated with the portfolio and it includes any remaining balance of loans infected with arrears including the arrears balance itself. In other terms, calculation of takes into account risk of delinquency particularly in credit terms with small loan repayment over a long credit period. Loans loss are part of expense of doing expense.

It measures the amount of loan written off or cancelled from accounting records uncollectible during a given accounting period when the loans do have little hope of collection the future.
<table>
<thead>
<tr>
<th>Indicators</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repayment rate</td>
<td>98.08</td>
<td>97.41</td>
<td>100</td>
<td>96</td>
<td>96</td>
</tr>
<tr>
<td>Arrears Rate</td>
<td>0.04</td>
<td>0.036</td>
<td>0.016</td>
<td>0.022</td>
<td>0.023</td>
</tr>
</tbody>
</table>

Source:  *Performance report 2012-2016 (OCSSCO)*

From 2012 to 2016 OCSSCO has been able maintained a very good repayment rate at an average of 97.51%. The arrears rate was below 1% of its loan portfolio. This indicates that the company has smaller risk of loan not to be collected in the future. This effective performance of OCSSCO might attached by proper client selection, follow up and monitoring both by staffs and loan committee also concerned body.
CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This study primarily aimed to evaluate service outreach and sustainability of the OCSSCO in terms of operational self-sufficient, financial self-sufficient, productivity and efficient profitability, financing and portfolio Quality. Most of the clients of OCSSCO marital status are married with average family size of five members. Because of lack of accessibility of infrastructure most of the clients of OCSSCO has low Education level and has low capacity to read and write of something and also lack of access to market their products and has normal house low quality. So OCSSCO helps poor farmers who are engaged in farming and related activity and given how increase their farming productivity level.

The major source of credit for the clients of the company before its joining were informal money lenders which are friends and relatives and usuries that impose higher interest rate and now days 59% of the clients are using the services of the company for a long period of time after its establishment above three years. The loan size ranges from 3000-15000 for group liability lending system and for individuals and others business depend on the type of product also consider business feasibility and size loan amount disbursed approved at different level of position and up to broad of directors.

Most of the clients of OCSSCO Prefers loan which is repayable with one to two years periods in group liability lending system and maximum periods of loan repaid was five years and deepened on the products of loans. The interest of loan pays for group based was 17 flat basis and for others products of loans interest loan pays 6.25, 13 and 17 declining basis.

In addition the company pays interest rate for saving products 5% and monthly compounded also for especially saving products interest rate varies from this interest rate deepened on the products of saving and period of stayed and the agreement of the saving products saved. Products and services promotion was highly deepened on community network and staffs effort which were acceptable compared to the high demand for financial services and poor communication in rural areas. The Company have formal training program for both
employees and customers in different time. All the training for customers are on credit and saving services issues if the company which took 5 days on average. OCSSCO has given an opportunity to 4547 staffs in 316 offices and at 18 zonal office and at Head Quarter it has been able cover above 90% of Oromia Regional Government state of woreda and each of zone of Oromia regional state have one zonal offices. Since 2012 OCSSCO has started obtaining operational income adequate to cover its operation cost on average OCSSCO is operating and financial sufficient at around 155% and 136% respectively over the five years period.

Major source of income of OCSSCO from interest income generated from loan disbursed each year and donation of the company from others decreased from 2012-2016 and 141% and 39% respectively. The average of ROA, ROE and Yields of gross profit over the five year 4.74, 18.40 and 17.04 respectively. OCSSCO Funds 25.40% of assets with equity and saving major liability of the company and deposit account of for total liability and the average debt to equity ratio was 3.19. There is an increasing in gross loan portfolio total assets ratio from year to year and the share deposit in financing the total financing portfolio was increasing. OCSSCO has a high Quality from 2012-2016 has been able to maintained a very good repayment at an average of 97.04%. In general, the study also identifies there were positive relation between outreach and sustainability.
Recommendations

According to the result of the study the following the recommendation were forwarded. The loan size of the company needs to be revised taking the consideration the purchase power of birr at the current market fair value of input to clients and business and the company should be expand new type of product loans for car, education loan, export and import, manufacture and also modify loan procedures and policy of the company of group based loan. In addition, family size and client’s needs with the purpose of the loan should be considered to increase the outreach level. Group based lending helps MFIs serve those who are so poor that they could not provide sufficient collateral for the loan they took. Therefore, improving group lending device benefits both the institution as well as the clients.

Company should be pay attention an increase of young participation in OCSSCO in order to get service of company for generating their income and also support an increase their saving mobilization by creating new product Loan and Saving for younger like Youth fund loan, youth saving and so on.

The Company should be pay attention an increase of women participation in OCSSCO in order to improve the income of women and increase service outreach of the company.

Develop voluntary saving mobilization from public targeting people live in urban and rural areas with regular income and society organizations like idir, public Association, women association, women federation association, women federation, and any public development association and also concerned Government of body to make deposit with OCSSCO. Saving is the source of fund for loans and helps to be sustainable in the future and also the Company should be expanded saving products for saving mobilization like education for saving,

The company should be highly working on promotion activities regarding about the product and service of the company in order to improving the way of communication and creation of awareness in rural and urban areas for ensuring its suitability and reaching outreach.

Finally, to increase of the achievement of level sustainability and outreach the company should increase its revenue operation and reduce its operating cost, financial costs and uncollectible expense by using budget controlling system and managerial effectiveness.
Reference

❖ Degefe D. (2009), microfinance in Ethiopia: Elixir or Poison? Shaker publishing 2009, Maastricht, The Netherlands
❖ Gary Woller and Mark Schreiner (2002). Poverty Lending, Financial Self-Sufficiency, and the six Aspects Outreach
❖ J.D. Von Pischke (1999
❖ Kipesha, E. and Zhang (2013), Sustainability, Profitability and Outreach Tradeoffs: Evidences from Microfinance Institutions in East Africa
❖ Kipesha, E. and Zhang (2013), Sustainability, Profitability and Outreach Tradeoffs: Evidences from Microfinance Institutions in East Africa
❖ Oromia Credit and Saving Share Company (OCSSCO) 2012-2016 Independent Auditors’ Report and Financial Statements
❖ Oromia credit and Saving Share Company (OCSSCO) Manuals 2013-2014
❖ Oromia credit and Saving Share Company; Planning and Performance Report (OCSSCO) 2012-2016.


## Appendix

### OCSSCO Financial Data from 2012 Up to 2016 Fiscal Years

<table>
<thead>
<tr>
<th>Balance Sheet Accounts (In Birr Value)</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>2,113,878,371.00</td>
<td>2,901,898,049.00</td>
<td>4,566,488,273.00</td>
<td>4,723,190,702.00</td>
</tr>
<tr>
<td>Net Total Assets</td>
<td>573,262,551.00</td>
<td>727,670,297.00</td>
<td>893,213,515.00</td>
<td>1,205,253,654.00</td>
</tr>
<tr>
<td>Loan Outstanding</td>
<td>1,697,506,906.00</td>
<td>2,445,202,426.00</td>
<td>3,479,333,477.00</td>
<td>3,659,172,176.00</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>1,540,615,820.00</td>
<td>2,026,614,349.00</td>
<td>367,327,459.00</td>
<td>3517937048</td>
</tr>
<tr>
<td>Total Saving</td>
<td>1,003,978,446.00</td>
<td>1,476,613,404.00</td>
<td>2,290,867,362.00</td>
<td>2,297,104,151.00</td>
</tr>
</tbody>
</table>

### Income Statement Accounts (Birr Value)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>198,109,562.00</td>
<td>277,690,234.00</td>
<td>540,710,382.00</td>
<td>746,862,288.00</td>
</tr>
<tr>
<td>Total Income</td>
<td>195,937,762.00</td>
<td>258,419,243.00</td>
<td>413,217,024.00</td>
<td>599,472,851.00</td>
</tr>
<tr>
<td>Loan Loss Provision</td>
<td>760,259.00</td>
<td>-</td>
<td>26,759,577.00</td>
<td>39,624,488.00</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>62,755,490.00</td>
<td>76,382,391.00</td>
<td>143,112,770.00</td>
<td>169,357,268.00</td>
</tr>
<tr>
<td>Operating Expense</td>
<td>89,725,274.00</td>
<td>136,979,492.00</td>
<td>238,263,471.00</td>
<td>289,346,218.00</td>
</tr>
<tr>
<td>Net Profit</td>
<td>106,212,488.00</td>
<td>121,439,751.00</td>
<td>174,953,553.00</td>
<td>310,126,636.00</td>
</tr>
<tr>
<td>Grant Received</td>
<td>85,450.00</td>
<td>3,289,731.00</td>
<td>3,493,737.00</td>
<td>3,493,737.00</td>
</tr>
</tbody>
</table>

*Source: Independent Auditor Report from 2012-2016 and OCSSCO*
Formulas used by company to calculate performance ratios

<table>
<thead>
<tr>
<th>S.N</th>
<th>Indicators</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Deposit to Loan Ratio</td>
<td>Deposit/Gross loan portfolio</td>
</tr>
<tr>
<td>2</td>
<td>Operation Self sufficient</td>
<td>Financial Revenue /financial expense + Net impairment Loss + Operating Expense</td>
</tr>
<tr>
<td>3</td>
<td>Financial Self Sufficient</td>
<td>Operating Income/Operating Expense + financial costs provision for loan loss + Cost of Capital</td>
</tr>
<tr>
<td>4</td>
<td>Repayment Rate</td>
<td>Amount Received / Amount Due</td>
</tr>
<tr>
<td>5</td>
<td>Average Loan Balance per Borrower</td>
<td>Gross loan Portfolio/ Number of Active Borrowers</td>
</tr>
<tr>
<td>6</td>
<td>Average Deposits balance per Depositor</td>
<td>Deposits/Number of Depositors</td>
</tr>
<tr>
<td>7</td>
<td>Borrowers per staff</td>
<td>Number of Active Borrowers/ Number of Staffs</td>
</tr>
<tr>
<td>8</td>
<td>Borrowers per Customer service officer</td>
<td>Number of Active Borrowers/ Customer service officers</td>
</tr>
<tr>
<td>9</td>
<td>Depositors per staff member</td>
<td>Number of Depositors/ Number of Staffs</td>
</tr>
<tr>
<td>10</td>
<td>Personnel Expense/Loan Portfolio</td>
<td>Operating Expense /average gross loan portfolio</td>
</tr>
<tr>
<td>11</td>
<td>Cost per Borrowers</td>
<td>Operating Expense/ Average Number of Active Borrowers</td>
</tr>
<tr>
<td>12</td>
<td>Personnel Allocation Ratio</td>
<td>Number of Customer Service Officer/Number of staffs</td>
</tr>
<tr>
<td>13</td>
<td>Operating Cost Ratio</td>
<td>Operating Costs/Average Portfolio Outstanding</td>
</tr>
<tr>
<td>14</td>
<td>ROA</td>
<td>Net Profit /Assets</td>
</tr>
<tr>
<td>15</td>
<td>ROE</td>
<td>Net profit/ Equity</td>
</tr>
<tr>
<td>16</td>
<td>Yield on Gross portfolio</td>
<td>Financial Revenue from loan portfolio/Average gross Loan portfolio</td>
</tr>
<tr>
<td>17</td>
<td>Profit Margin</td>
<td>Net operating income/financial Revenue</td>
</tr>
<tr>
<td>18</td>
<td>Equity/Asset Ratio</td>
<td>Total Equity/Total Assets</td>
</tr>
<tr>
<td>19</td>
<td>Arrears Rate</td>
<td>Amount on Arrears/Portfolio Outstanding or 1-RR</td>
</tr>
</tbody>
</table>

*Source: OCSSCO Performance Report 2012-2016*
Questionnaires to be filled by clients of Oromia credit and Saving Share Company and this questionnaire will be aims at evaluating Service Outreach and Sustainability of the Oromia Credit and Saving share company (OCSSCO). The Questionnaire will be prepared for clients and to be translated to afanoromo

Dear Respondents:

The information to be collected in this questionnaire is only for academic purpose and will strictly confidential. Therefore, your genuine, frank and timely responses are important to determine the success of this study. So, I kindly request your cooperation in filling the questionnaire honestly and reliably.

NB.

- Don’t write your name
- Encircle the letter of your choice and if there another option write on black space given

A. Socio-demographic characteristics of customers

1. Age

A) Below 18 C) 41 -65 years
B) 18-40 years D) Above 65 years

2. Sex

A) Male B) Female

3. Marital Status

A) Single B) widowed
C) Married D) Divorced

4. Occupation

A) Farmer B) Handiwork
C) Civil Servant  D) Petty Trade  E) Daily Laborer  F) Service Provider

G) Tailor        H) Merchant

if other, specify______________________

5. Educational Level

A) Illiterate  C) 1-4 grade  E) 9-12 grade

B) Basic Education  D) 5-8 grade  F) college and above

6. How many family members do you have?

A) 3  B) 4  C) 5  D) 6  E) 7 or above

B. Wealth Status of clients

1. What is/are your source of income?

A) Farming   B) Salary   C) Trading   D) Wages

If other, specify______________________

2. How much is your monthly income?

A) 0-2000  B) 2001-4000  C) 4001-6000  D) Above 6000

3. How much is your monthly expenditure for?

Food ____________________

Heath ____________________

Clothing (yearly) ____________________

Furniture ____________________

Education (school fee) ____________________

Social interaction_________________
4. What type of house do you have?

   A) Normal house   B) villa   C) G+1

5. Have you experienced going work with no food in a month’s time?

   A) Yes             B) No

If Yes, what is the reason? ________________________________

Questions for Group based rural Clients

5. How many cattle do you have?

   A) 1-10  B) 11-20  C) 21-30  D) 31-40  E) Above 40

Before joining OCSSCO after joining OCSSCO

   Ox ______________ ___________

   Cow ______________ __________

   Sheep/goat __________ __________

   Donkey ______________ __________

   Mule/horse ______________ __________

6. Land ownership in hectares

   A) Owned: Agricultural land ______________ B) Non-agricultural land ____________

   C) Leased/rented: Agricultural land ____________

C. Credit Outreach

1. Where did you get credit (loan) before becoming a member of OCSSCO?

   A) Friends and relatives
B) Cooperatives (Union)
C) Local money lenders
D) Credit and saving Association
E) Banks
F) NGOs
F) Churches/mosques

Others sources _____________________

2. For how long have you been a member of OCSSCO?

A) Less than 2 year  B) 6-8 years  D) 9-11 years
B) 3-5 years  E) Above 11 years

3. For this year how much loan (money) you have borrowed from OCSSCO including any Outstanding balance owed currently?

A) 3000-6000  B) 5001-9000  C) 9001-12000  D) 12001-15000

4. For what purpose have you taken the loan?

A) Consumption  B) Agriculture for fertilizer  C) Animal fattening  D) Petty trade  E) Handicraft  F) Purchase of fixed assets/equipments
G) Purchase of oxen  H) Bee keeping

Service others (specify) ________________________________

5. Did you get the loan amount as you requested?

A) Reduced  B) As requested  C) Larger

6. Did you use the loan entirely for the intended purpose (as stated on the loan application)?
A) Yes  B) No

If No, why? ___________________________________________

And, how did you spend the remaining amount? __________________________

7. How long is the credit period?

A) Less than 1 year  B) 1-2 years

C) 3-5 years  D) above 5 years

8. Is the loan you take Term loan or Installment basis?

A) Installment Loan  B) Term Loan

9. Does the loan reach you when you need it? A) Yes  B) No

If No, what kind of problem you encountered? __________________________

D. Service delivery

1. How do you learn about OCSSCO?

A) From friends and relatives  B) From advertisements on TV, radio, and newspapers

C) From information given by the employees of OCSSCO

If other, specify __________________________________________

2. What service you use in OCSSCO?

A) Saving  B) Credit  C) Micro insurance  D) M-Birr service  E) Fund Management

F) Local many transfer

if other, Specify _____________  C) Micro insurance

3. What type of lending you prefer?
A) Individual    B) Group    C) MSE

4. How long it takes to get a loan? __________________?

5. How far is the branch office from your Peasant Kebele?
   A) Below 7 km
   B) 8-12 km
   C) 13-17 km
   D) 18-25 km
   E) above 25 km

6. How do you rate employees’ customer handling and treatment?
   A) Poor          B).Satisfactory
   C). Good              D). Very Good
   E) .Excellent

7. Do the Customer service officer select the customers for loan properly?
   A) Yes                            B) No
   If No, what problem did you observed? ____________________________

8. How do you rate Customer service officer’s proper and timely follow-up of credit given?
   A .Poor          B. Satisfactory      C) Good       D. Very Good      E . Excellent

9. Do you get training from the Company? A) Yes       B) No
   If yes, what kind of training is that?
   A) Credit and saving     B) Literacy/Educational
   C) Marketing           D) Health Related
If other, specify______________

10. How long is the training time on average? ______________

11. When frequent you held meetings?

   A) Per week B) per 14 days C per month D) More than a month

12. How do you rate the interest rate on loan?

   A) Very high  C) Fair
   B) High       D) Low Very low

   What for saving?

   A) Very high      B) High      C) Fair      D) Low      E) Very low

13. How do you rate the overall service delivery of the Company?

   A) Poor       B) Satisfactory    C) Good      D) Very Good
   E) Excellent

14. What improvement do you suggest for OCSSCO? _______________________

Interview Questions

Interview questions for Management and Employees of the Company

   The Interviewee:

   Education Background ______________

   Work experience ___________

   Your position in this Company ___________

   General questions

   Total number of employees and their qualifications
What are the services provided by the Company?

Does your Company give training for the employees as well as for customers? In which area do you give training? What is the average training time?

1. Questions related to institutional and financial Sustainability

What is/are the sources of funding for operation?

Do you have capable staff that can carry out all the functions within the organization?

Are you efficient enough to cover your expenses from your own income?

Do you have any difficulties you are facing when providing credit? Do you think that you will sustain your existence without subsidy (donors’ fund)?

How do you rate the profitability trend of the Company for the past 5 years?

How do measures the sustainability past five years ago?

What are the indicators of sustainability?

2. Questions related to outreach

Total number of customers

<table>
<thead>
<tr>
<th>Total savers customers</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total borrowers Customers</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

How is the client dispersal in the area (per kilometer)?

Do you think OCSSCO reached the poorest of the poor people in the region especially in more remote areas?

Do you have reached your outreach targets in terms of number of customers?

How do you expressed the outreach grows of OCSSCO in past five years ago?

3. Questions related to customers’ assessment
Who are your target customers? For which group do you give priority?

What criteria do you use in selecting potential customers?

Which financing system most of the customers prefer?

For what purpose most of your customers took a loan?

4. Questions related to loans and saving

How much is the maximum loan size allowed for a single borrower at one time? Has the size of the loan increased/decreased as compared with the past five years?

How much is the maximum loan size permitted for new comers of borrower?

What is the frequency of loans obtained by a borrower on average?

How much is the loan-period? (Min and max)

What is the amount of loan repayment periods?

Which the product of loan mostly Available for clients?

Did the loan takers pay the loan at the right time? If not what measures do you take?

Do you feel that there is any potential for local savings collection?

What type of saving does the Company provides for its customers?

How much is the interest rate for credit and saving? What do you think as compared with?

Banks interest rate and others Micro finance institution