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Performance Analysis of Microfinance Institutions in Ethiopia

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ABSTRACT: *The objective of this study was to assess the performance of MFI in Ethiopia. Thirty-one MFIs operating in Ethiopia had been selected for performance assessment. To analyze outreach, collection performance, financial sustainability, efficiency and welfare impact indicators were used. Peer category was considered as an important factor and classified MFIs into three categories based on maturity, breadth outreach, and operation scale. The Ethiopian MFIs is growing fast in terms of financial sustainability and outreach but there are millions of people that are in need of financial service. This study specifies how the Ethiopian MFIs stands in terms of outreach and financial sustainability. A financial ratio such RoA, RoE, FSS, OSS and many more related and descriptive statistics were used for the study to know how they are performing their operation. The results of the study show that performance of MFIs are poor in terms of depth outreach as they are not reaching many poor people living under the poverty line. Their performance needs to be improved as they were not covering their financial breakeven to mean that some of the MFIs in Ethiopia cannot cover their operating expense, but are good in terms of breadth outreach.*

KEYWORDS –*Microfinance, Performance, Pee-category, Outreach, financial- sustainability*

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I. INTRODUCTION

This study presents the finding of the performance analysis of the MFIs in Ethiopia. Primary and secondary data were collected during the data collection and reached findings. To achieve the objectives of the study, all the necessary required data were collected from the MFIs in Ethiopia and evaluated their performance. The secondary data of thirty-one MFIs regarding financial information to evaluate the performance in Ethiopia were collected from the National Bank of Ethiopia (NBE) and Association of Ethiopia Microfinance Institution (AEMFI). Primary data required for the study were collected using questionnaire and distributed to the MFIs that are located in Ethiopia particularly Somali Region.

1.1. The objective of this study was to evaluate the performance of Microfinance Institutions in Ethiopia.

1.2. Significance of the Study

Studies of these natures are very important because they clearly identify the performance of MFI and identify whether MFIs' are profitable that can cover their administrative cost to continue their service. This study contributes knowledge in many important areas of financial institutions, it also intends to shed light on the financial contributions, it helps to come up with substantive possible alternative policy interventions which help to address the problems and challenges faced by MFI and pave a forward way of development for the government, policymakers and MFIs to general public at large and understand the performance of MFI for development process. It can also be used as a basis for any future study to explore some other concerns regarding MFI. Therefore, this research study became significant in filling this observed gap by analyzing the performance of MFIs.

II. REVIEW OF LITERATURE

MFI is a type of financial institution that offers financial service to the low-income peoples, unemployed or group of peoples who have no access to financial services of commercial banks. It is a modern tool that is used almost everywhere to fight poverty, make awareness and empower women that results in sustainable development (Perways A., and P. Krishna M., 2017). Microfinance' history is often related to the introduction of non-governmentally owned institutions that provide the service of micro-credit to the active poor community. Standards started to rise calling stronger financial management to the providers of small credits in the early 1990s particularly in their behavior of reporting and management. Credit unions and formal financial institutions like banks involved stronger monitoring techniques of microlending for their microcredit jobs (Ledgerwood, 1998).

Microfinance policy and objectives in Ethiopia are to make available and accessible financial services to a large number of actively productive Ethiopian populations which use to have no access to formal financial services that could empower them the contribution of the country's economic development. Microfinance is related to a group of financial service innovations under the term microfinance, according to microfinance it is micro savings, money transfer and micro insurance (Islam, Mohd. Najmul, 2013).

According to the conceptual framework of MFIs by Zeller and Meyer (2002) which summarize the paradigm shifts, strategies and developmental practice in the 1990s led the recognition of the three most important policy objectives of MFIs; outreach, financial sustainability, and welfare impact. Zeller and Meyer have further discussed the paradigm shift about the policies of financial sector development in which much of this can go back to the recent success of a few MFIs and failures of the traditional small farmer credit paradigm. The past four decades policymakers wanted to limit the gap between the access to financial service and its demand through different interventions albeit with mixed success. Many different scholars argued how to evaluate the performance of MFI but Zeller and Mayer introduced the critical triangle of MFIs out of the objectives of MFIs that are; outreach, financial sustainability, and welfare impact for the evaluation of the performance of MFIs.

2.1. Overview of Microfinance Institutions in Ethiopia

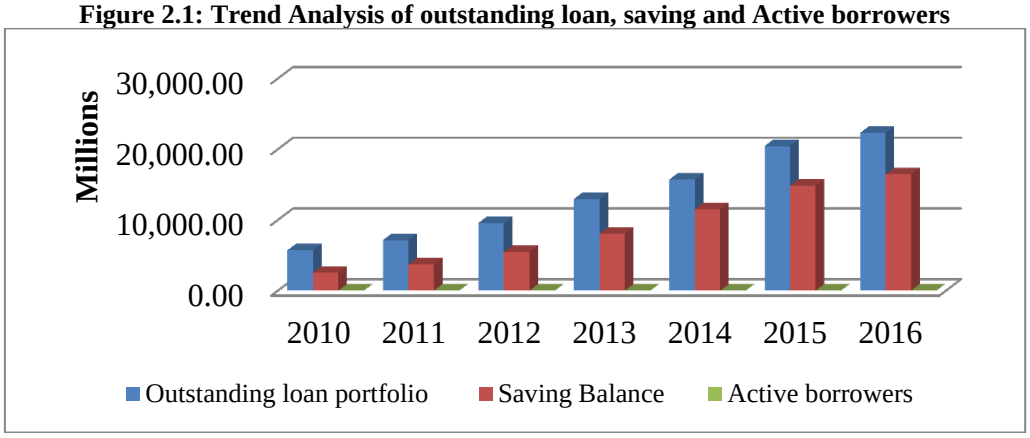
The development of MFI in Ethiopia is a recent phenomenon and known by its fast-growing according to Ebisa Deribie, et al., (2013) and aggressive drive to achieve a large scale of geographic location in the country, a dominance of government-owned MFIs, an emphasis on rural households, promoting both credit and saving products, a strong focus on sustainability and in fact, it is Ethiopian owned and driven sector. After the Ethiopian government proclamation no. 40/1996 of MFI was issued, this paved the way for establishment of MFIs to provide financial service to the communities who suffered lack of financial service from the formal banks, various MFIs have legally been registered and started delivering service of microfinance like other countries and they can mobilize savings once they got registered and legally empowered to supervise the activities MFIs by the NBE (Wolday Amha, 2000). According to Getaneh (2005), in Ethiopia MFI spread across urban and rural areas to offer deposit, withdrawal and accept a draft to the public and to manage the microfinance business funds which are allowed by low. The Ethiopian deposit-taking MFIs provide different financial services such as; savings, microinsurance, loan, remittance, and payment such as collecting taxes, pension payment, and another related service charge. Consequently, a progressive transition has been seen in Ethiopian MFIs from microcredit to microfinance and finally to financial inclusion (Wolday and Anteneh, 2015).

The Ethiopian five-year growth and transformation plan (GTP) and the micro and small enterprise development agency (MSEDA) strategy has given more emphasis on the saving behavior of household and saving mobilization and this is why all MFIs in Ethiopia offer both compulsory and voluntary savings. The financial performance of this sector shown a remarkable achievements and the sector outreach is impressive, according to AEMFI's 2016 annual report, the Ethiopian MFIs has shown a remarkable progress in terms of outreach and performance, the sector outreach or the number of active borrowers is 3.9 million in which out of these borrowers 1.7 million were women.

2.1.1. Trend Analysis of MFIs Operating in Ethiopia

The trends of the operating MFIs in Ethiopia for a period of seven years are discussed. In this trend analysis, outstanding loan portfolio, saving, and active borrowers' indicators have been considered as shown in figure 2.1;

Figure 2.1: Trend Analysis of outstanding loan, saving and Active borrowers



Source: Author's compilation from various reports of NBE and AEMFI, 2017

2.1.2. Microfinance Indicators for measuring performance

Institution performance should be measured but the way of measuring shall not only be from the organization perspective but should also from the industry average because the main goal of the MFIs is to eliminate poverty. Indicators used to measure the performance of MFIs are;

Outreach: It's used to measure the performance of MFIs, in which it is measured in terms of total number of clients, total saving of clients, loan size, volume of savings, and total percentage of female clients, financial range of services offered to clients and total percentage of loans provided to clients below poverty line.

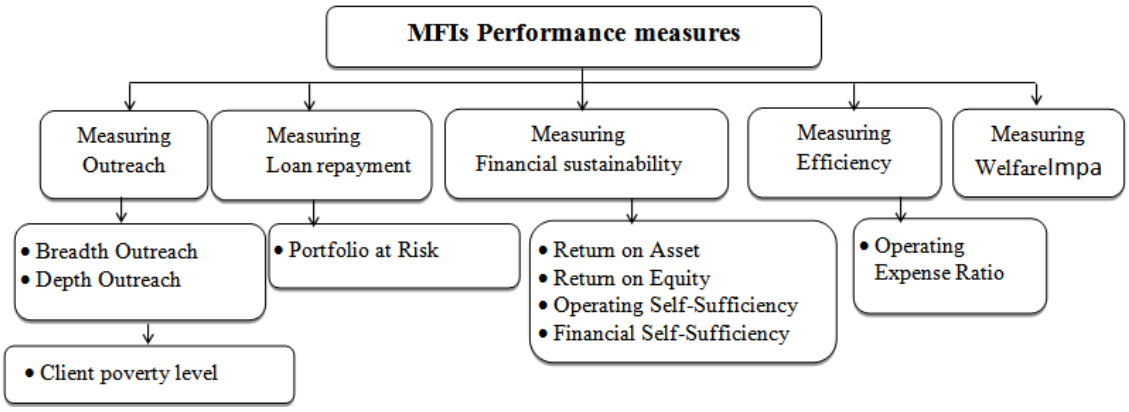
Loan repayment (Portfolio Quality): It's a loan that was made to those who need it and held for repayment. Some major assets of the lending institutions are loan portfolio and its value does not only depend earned interest rate on the loan, but also on the likelihood that the principal amount and interest will be paid (*Farlex,* 2009).Loan repayment of clients or collection performance of the institution is one of the most five known performance areas because it shows successfulness of the ability of the lender to collect back the loan. Hence, it suggested keeping delinquently at a very low level to be successful.

Financial sustainability: The performance of MFIs was usually reviewed based on sufficient revenue ability from the loan portfolio of the MFIs to cover operational and financial cost such as RoA, RoE, FSS, and OSS of the MFI that provide financial services in all the areas. Though MFIs profitability is affected by poor portfolio quality, indicators of MFIs profitability are difficult for interpretation as they are a complex managerial factor result (Wolday and Anteneh, 2015).

Efficiency: It measures the performance of the MFIs, the invested cost for the inputs or outputs to show how well the organization's operations are improving because of it's not being manipulated easily by the decisions of the management, compared to the other institutions' indicators such as; profitability indicator. In addition to this, efficiency indicator for MFIs performance measurements is less comprehensive than profitability performance measure indicator for MFIs (Tor Jansson, 2013).

Welfare improvements for clients: To improve the welfare of the poor is the main objective of MFIs. How well MFIs fulfills the need of the poor can only be measured by welfare impact. According to Patil Jayanthi (2016) MFIs can only achieve its objectives through two approaches; Institutional approach which measures the success by the institutions' sustainability assuring self-sustainable MFIs that likely contribute more for the poverty reduction and expansion of income while the second approach is welfare approach which measures the success by how well MFIs fulfill the need of the very poor in the short term.

Figure 2.2: Conceptual Framework Model for Measuring Performance of MFIs in Ethiopia



Source: Self-design, 2017

III. METHODOLOGY

3.1. Introduction

To be a successful outcome of a given research for any study, it largely depends upon the accuracy, quality of data collected and used for research (An. Bras. Dermatol, 2014). Primary and secondary data, proper data collection, relevant information or materials have been ensured and made. Hence, this section of the study was designed for methodology, sample size along with its justification, and techniques of data analysis used for the study.

3.2. Area and population of the study

The population of the study was the entire MFIs in Ethiopia with the exception of three MFIs by which their audited financial data were not obtained from the NBE. The population of the study includes SMFI in which the primary data for this study were collected using questionnaire.

3.3. Source and techniques of data analysis

Financial data for about thirty-one MFIs for the period of 2010-2016 were collected from the NBE and data were extracted from reports of AEMFI, journals, research studies and Somali Microfinance Institution (SMFI). The data of the study has been analyzed using descriptive statistics and financial ratios to measure the performance of Ethiopian MFIs using the five indicators suggested by Richard Rosenberg (2009) that are widely used for MFIs performance measurement such as, outreach, loan repayment, financial sustainability, efficiency, and welfare impact. Peer category classification was made by which MFIs were classified into three major groups for the analysis based on their maturity, breadth outreach, and operation scale. Peer category classification of MFIs has been considered as an important factor by which MFI performance has a meaning when it's compared with MFIs that are found within the country to understand their achievement (Walday A., and Anteneh K., 2015).

IV. PRESENTATION AND ANALYSIS OF DATA

4.1 Structure of the Ethiopian Microfinance Institutions

The concept of MFI in Ethiopia is a recent phenomenon and known by its fast-growing but aggressive drive to achieve a large scale. Most of MFIs operate in the highly populated areas of rural and urban center in which their head offices are in Addis Ababa and state capital towns. Providing financial and non-financial services for the poor that has not been served by formal banks is a core tool for development which helps employment creation, wealth distribution and increases income and consumption which can reduce the poverty level.

Different financial and non-financial services such as a loan, remittance, micro-insurance and system of payments like tax collection, payment of pension and other service charge are provided by the Ethiopian deposit-taking MFIs. A progressive transition of MFIs has seen in Ethiopia to microfinance and financial inclusion finally from microcredit. According to Robinson (2001), the emerging MFIs revolution managed to provide small loan and deposit services to a large low income people by competing commercial banks, conveniently located and secure. For investigation purpose of the performance of MFI in Ethiopia peer category has been considered as an important factor and classified MFIs into three categories: based on their maturity, breadth outreach, and operation scale as follow;

4.1.1. MFIs classification based on Maturity

MFIs in Ethiopia based on the majority, about 27 MFIs representing the majority of the MFIs fall under the Mature classification of MFIs (MFIs that are older than 8 years) followed by young MFIs classification that is 2 MFIs which fall under the age in between 5 to 8 years old, and about 3 MFIs in Ethiopia fall under the New classification of MFIs.

4.1.2. MFIs classification based on Breadth outreach

MFIs with total number of active borrowers of $\leq$ to 15,000 can be categorized in to small category of MFI, MFIs with total number of active borrowers in between 15,001 to 50,000 can be cauterized in to medium category of MFIs and the last category of MFIs in Ethiopia is large in which the MFIs with total number of active borrowers of $\geq$ 50,000 can be categorized in to large category of MFIs. Based on this, the study described the peer classifications of MFIs based on the number of borrowers. About 17 of the total MFIs in Ethiopia fall under the small classifications of the MFIs followed by 7 MFIs that are categorized into medium classification of MFIs and lastly 9 MFIs are categorized into large classification of MFIs.

4.1.3. MFIs classification based on operation scale

According to the CGAP (2003), the definition of certain key financial account that is used by MFIs' gross loan portfolio is defined as the all outstanding loan of MFIs including current restructured and delinquent but not the written off the loan. Interest receivable does not include. Based on this definition the researcher measured the scale of Ethiopian MFIs based on the loan size and found that peer classification of MFIs based on their scale of operation, it has been classified in to three category based on gross loan portfolio such as, Small classification of MFIs in which the MFIs with gross loan portfolio of $\leq$ ETB 10 million falls under this category and about 9 MFIs are in this category, medium classification of MFIs with gross loan portfolio of in between ETB 10-50 million are found under this category and It has been found that about 5 MFIs are under medium category of MFIs in Ethiopia, and under the last classification of MFIs based on gross loan portfolio of more than 50 million are known as Large in which 19 MFIs fall into this category.

Table 4.1: MFIs outreach in Ethiopia (2010-2016)

Year	Total No of Active Clients	Women Borrowers (%)	Outstanding Loan	Total Savings	Total Capital
2010	2,325,914	55	5,706,372,461	2,555,729,720	2,551,808,293
2011	2,480,810	51	7,152,069,840	3,696,016,796	3,262,875,667
2012	2,637,625	50	9,589,633,775	5,474,346,625	3,737,200,858
2013	3,149,740	49	12,968,659,835	8,018,305,504	4,308,205,954
2014	3,365,951	51	15,728,454,532	11,518,609,125	5,426,258,292
2015	3,807,162	51	20,460,321,121	14,864,879,915	6,471,740,037
2016	3,898,085	43	22,307,097,272	16,431,446,175	8,284,242,191

Source: Author's computation from various reports of NBE and AEMFI, 2017

Table 4.1 shows that the total saving of the MFIs increased to ETB 16.4 billion in 2016 from ETB 2.55 billion in 2010, the average saving per clients also increased to 4,215 in the year 2016 from 1,099 in the year 2010. A remarkable growth of capital of MFIs has seen also in the year of 2016 which is increased to ETB 8.3 billion from 2.6 billion in the year of 2010; this increase led the MFIs to increase their capacity to address the financial risk that is related to credit and liquidity. But, the total number of women served by this sector has decreased in the 2016 year to 43% from 55% in the year 2010. Ethiopian MFIs based on their experience within this sector they proofed not only rich can save but also poor people can save once they are given the support of access to finance.

The collected date describes that the Ethiopian deposit-taking MFIs have shown a remarkable growth and development in terms of clients being served, total volume of the outstanding loan portfolio, the mobilized size of the saving, MFIs asset and their capital as it is shown in table 4.1. However, the expectation and the demand amount of loans that the government set for MFIs in order to meet the GTP II target, in the coming years to double the outreach of MFIs is required which need huge support and significant change for the further capacity building of the financial institutions particularly MFIs.

Depth of outreach (Client poverty level)

According to the CGAP, not all projects of MFIs reduce poverty as an explicit objective, but reaching poor clients are expected. There are various different techniques for such projects to measure the level of the clients' poverty; some are simpler while others are quite expensive, widespread agreement yet to be reached on any of these measurement techniques. The average outstanding balance only includes the amount of loan yet to be repaid or savings that have not been withdrawn by the clients (James C., 2011). For comparison of how deeply MFIs reached down their national income distribution from various countries can be allowed using a percentage of GNI per capita (Richard R., 2009).

Table 4.2: Client poverty level (2010-2016)

Year	Outstanding Loan (a)	No of Active Clients (b)	Average outstanding loan (c=a/b)	GNI Per Capita LCU ETB (d)	%GNI Per Capita (c/d)
2010	5,706,372,461	2,325,914	2,453	4,383.92	56%
2011	7,152,069,840	2,480,810	2,883	5,707.68	51%
2012	9,589,633,775	2,637,625	3,636	8,066.10	45%
2013	12,968,659,835	3,149,740	4,117	9,115.81	45%
2014	15,728,454,532	3,365,951	4,673	10,865.10	43%
2015	20,460,321,121	3,807,162	5,374	12,943.30	42%
2016	22,307,097,272	3,898,085	5,723	14,869.58	38%

Source: Author's computation from various reports of NBE and AEMFI, 2017

According to the MIX and some regard below 20% of an average outstanding loan per capita of GNI tells us an indication of very poor client and if the average outstanding loan balance is not more than GNI capita of 250 percent of the lender, it has been classified as MFI. Therefore, based on this definition, the clients of the Ethiopian MFIs are not poor because of their average outstanding loan of GNI per capita that varies in between 38% to 56% in the last seven years which is greater than 20%.The poverty level of the client has related approximately to the owed average outstanding balance because of clients with better need not interested smaller loan of MFIs. But, poverty and balances in terms of correlation are far from precise; a low size of account does not assure poor clients. In addition to the above discussion, primary data regarding poverty level of MFIs client from the SMFI to investigate the poverty level of its clients as shown below table 4.3.

Table 4.3: SMFI Client poverty level

How poor are the clients (Client poverty level)?					
		Freq	%	Valid %	Cumulative %
Valid	The clients are poor and very active to promote their small business enterprise to grow up their income	28	37.4	37.4	37.4
	The clients are active poor and their living standard is a middle level	37	49.3	49.3	86.7
	The clients are poor but, can pay back the loan	10	13.3	13.3	100.0
	Total	**75**	**100.0**	**100.0**	

Source: Field survey, 2017

As it can be revealed from table 4.3 when the SMFI loan officers and other staffs of the institution were asked about the level of their client poverty; about 37 respondents said that their clients are active poor and their living standard is middle level followed by 28 respondents which replied that their clients are poor but very active to promote their business to grow up their income while the last group of 10 respondents replied that their clients are poor but have the ability to pay back the loan that was provided to them by the SMFIs.

4.2.2. Loan repayment (portfolio quality)

According to the CGAP long experience in evaluating a project of MFIs, successful projects that have a bad repayment is a very few, and unsuccessful projects that have good repayment is also a very few. Moreover, loan repayment indicator deserve special care so as to make meaningful and reliable reporting since the loan collection of MFIs is complicated and led a range of ratios to be used which is a very different thing by institutions (Jennifer I., et al., 2008). With regard to the this brief description about the loan repayment or collection performance, the study investigated how the loan that has been taken from the MFIs in repaid to the lending institution using the international portfolio quality measure in banking which is PAR beyond a specified number of days, it is the most widely accepted portfolio quality measure which shows portion of portfolio that has been contaminated by MFIs' arrears and for it's being not repaid therefore it's at risk (Damian V., S. and Alvaro R., 2013).

Any portfolio at risk that exceeds 10% since the MFIs loans unlike loans of formal or commercial loans do not have collateral it should be a serious cause, but it should also be noted that portfolio at risk that higher should not also necessarily translated in to a loss that was expected for the institution (Wolday A. and Antneh K., 2013). MFIs in Ethiopia maintain relatively lower portfolio at risk than that of the commercial banking sector when calculated the PAR Ethiopia MFIs have a portfolio at risk ration of 1 percent.

4.2.3. Financial sustainability (profitability)

The performance of MFI reviewed based on sufficient revenue ability from loan portfolio of the MFIs in Ethiopia to cover operational and financial cost under this section such as return on asset, return on equity, financial self-sufficiency and operational self-sufficiency of the micro-financing institutions that provide financial services in all the areas. Though MFI profitability is affected by poor portfolio quality, indicators of MFI profitability are difficult for interpretation as they are a complex managerial factor result (Wolday and Anteneh, 2015).

Return on Asset and Return on Equity

The only common measurement that is widely used for profitability that reflects the institution's efficiency and the profit margin is a **return on assets (RoA**), which is the ability of the organization to use its assets in a profitable manner and measure how well the assets of institutions has been used and **return on equity (RoE**) in which the produced returns on the investment of owners are measured.

Table 4.4: Return on Asset and Return on Equity of MFIs category A (2010-2016)

Year	Return on Asset	Return on Equity
2010	6.13%	18.4%
2011	5.57%	19.9%
2012	6.17%	23%
2013	6.45%	25.2%
2014	6.35%	27.8%
2015	7.25%	30.5%
2016	4.92%	20.8%

Source: Author's computation based on NBE MFIs categorization, 2017

Based on RoA and RoE formula, the collected data for about 7 years of audited financial reports of 31 MFIs from the NBE and AEMFI which has been calculated their RoA and RoE based on the three categories of

MFIs as shown table 4.4. RoA and RoE are the commonly used indicators to measure the ability of MFIs' continuation future of the operation. Due to the increasing demand for access to MFIs service, Ethiopian MFIs' available asset have reached a level of profits they generate, category A MFIs' calculated RoA has shown improvement from 2011 to 2015 which means that when the RoA number is higher the institutions are better, because, it's earning more money from fewer investments. Given that in this case category A MFIs were earned 6.13% of net income from every single ETB invested, but a decrease of RoA has seen in 2016 that RoA of 7.26% to 4.92%.

Similarly to RoA, after the year of 2010 average return to equity of this category of MFIs have shown impressive improvement of RoE thereafter. These MFIs improvement will lead category A MFIs in Ethiopia to many professional investors due to this significance increment, investors mostly look for the institution with at least 15% of RoE. However, some MFIs lower return on RoA and RoE when compared to other MFIs within the the same category or not. Overall the Ethiopian microfinance institutions in category A that have been measured using both the commonly used indicators to measure the ability of microfinance institutions future of operation have been improving in the seven-years with exceptional of the last year that 2016 in which both RoA and RoE shows a little decline.

Table 4.5: Return on Asset and Return on Equity of MFIs category B (2010-2016)

Year	Return on Asset	Return on Equity
2010	14.2%	32.6%
2011	13.7%	31.8%
2012	12.5%	31%
2013	15%	37.7%
2014	16.6%	41.8%
2015	17.2%	45%
2016	14.7%	39.1%

Source: Author's computation based on NBE Peer MFIs categorization, 2017

Table 4.5 shows the calculated RoA and RoE of the category B MFIs by which a significant improvement has been seen after the year of 2011 to 2015. RoA and RoE of this category have been increasing year after year to 17.2% RoA and 45% RoE in the year 2015 from 13.7 RoA and 31.8% RoE in 2011. But, similarly both RoA and RoE have experienced a little decline in the year of 2016. However, some MFIs have a higher RoA and RoE than the MFIs that are in the same category in Ethiopia. In general the category A MFIs in Ethiopia with the exception of the last year (2016) a little decline, they have been improving.

Table 4.6: Return on Asset and Return on Equity of MFIs category C (2010-2016)

Year	Return on Asset	Return on Equity
2010	-3.3%	-5%
2011	2.4%	4.32%
2012	6.69%	12.2%
2013	5.72%	16.6%
2014	4.93%	13.1%
2015	6.17%	17.1%
2016	5.97%	17.1%

Source: Author's computation based on NBE MFIs categorization, 2017

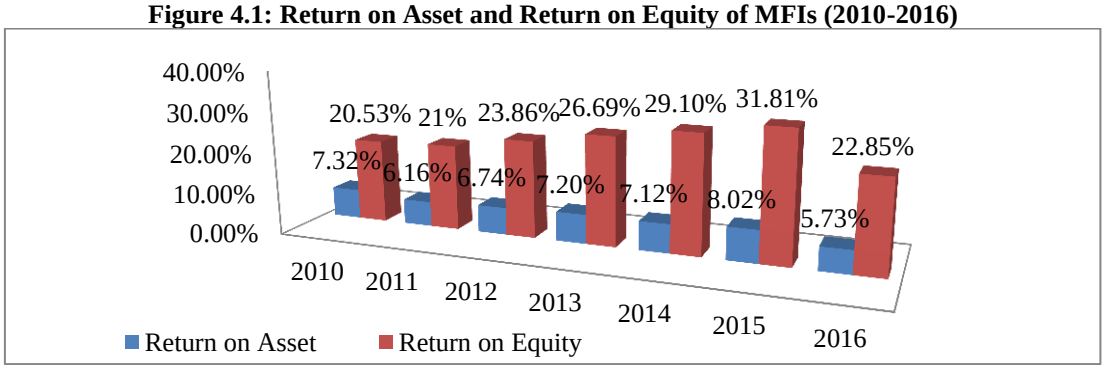
As indicated above table 4.6 after 2010 the negative values of RoA that is -3.3% a significance of improvements have seen which was an increase RoA of 2.4% to 6.69 in the year of 2012 after that a declining trend has experienced in between 2012 and 2016. Similarly, impressive improvements of RoE have shown by the Ethiopian Microfinance Institutions category C for last the 7 years with exception of 2010 in the RoE of this category of MFIs shown a negative value of -5%.

Among the category C MFIs, SMFI is in this category according to the NBE's categorization. So, the researcher investigated the profitability of SMFIs since this the study collected primary data from this MFI. the audited financial report of all the 31 MFIs obtained from the NBE shows us only four years of audited financial report for SMFI, considering this the researcher calculated both RoA and RoE of four year that is (2013-2016) from the financial reports.

The RoA and RoE of SMFI after calculated, the RoA shows that there is an increment for the last four years which is 0.57% from the year of 2013 to 5.52% in the year of 2016 which mean every single ETB invested the SMFI earned 5.52% of net income. In Addition to the RoA calculated for SMFI, RoE has significantly improved in 2013 to 19.9% from 2.7% in 2012 and improved thereafter to 30.3% in 2016. Therefore, SMFI is a profitable among the MFI within category C because of its RoE which is more than 15% and generating a profit 30.3 % in 2016 from every single ETB invested.

In general, the most important measure for the evaluation of how effectively the capitals of shareholders that are entrusted to the managing team of the institution are being managed is the RoA and RoE. As it can be revealed from the figure 4.1 below; due to the span of time that the study included, in fact, the study found that both RoA and RoE decline in the 2016 year to 5.73% and 22.85% of RoA and RoE from 8.02% and 31.81% respectively. For this reason, the MFIs particularly category C need to re-evaluate their institutions' strategy for better and higher RoA and RoE.

Figure 4.1: Return on Asset and Return on Equity of MFIs (2010-2016)



Source: Author's computation based on NBE categorization, 2017

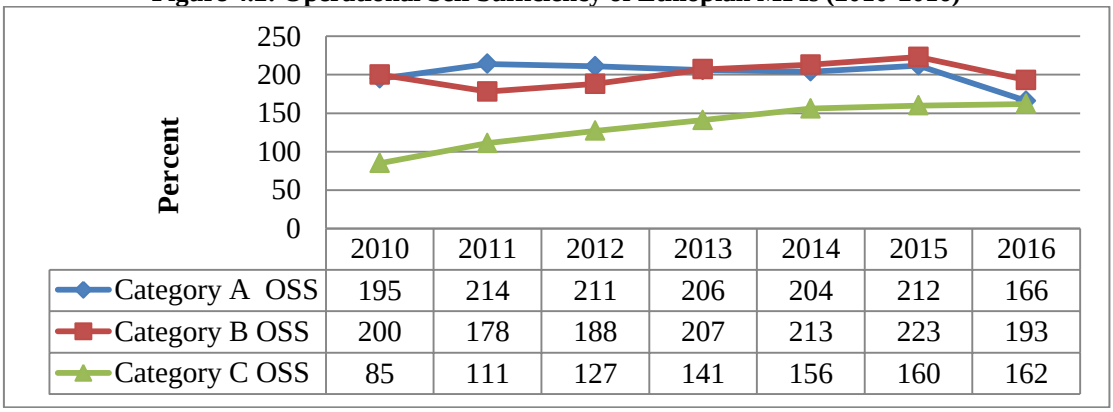
Overall, it appears that RoA of category A and B of the Ethiopian MFIs is in a better compared to the other category that is category C in converting their investment into profits, and category C of the Ethiopian MFIs needs to re-evaluate their institutions'' strategy as their RoA is very low.

4.2.4. Operational self-sufficiency and Financial Self-sufficiency

Operational self-sufficiency

OSS measures the operating revenue as a percentage of financial and operating expense; it includes expenses of loan provision. MFI can only cover its all costs with their own revenue that generated from their financial or operation when this ratio (OSS) is greater than 100 %. It means that MFIs should not be dependent on the subsidies from donors so as to cover their operation cost. A summary of OSS of Ethiopian MFIs is summarized in the below;

Figure 4.2: Operational Self Sufficiency of Ethiopian MFIs (2010-2016)



	2010	2011	2012	2013	2014	2015	2016
Category A OSS	195	214	211	206	204	212	166
Category B OSS	200	178	188	207	213	223	193
Category C OSS	85	111	127	141	156	160	162

Source: Author's computation based on NBE categorization of MFIs, 2017

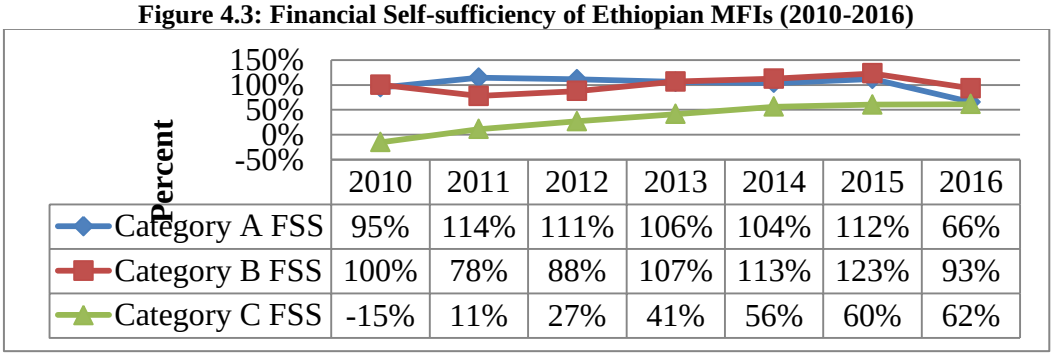
Figure 4.2 shows that in the last seven years, MFIs have successfully been registered OSS that is greater than 100% on average; revenues generated from their operation covered their expenses related to their operations. In addition to their success in terms of covering their operational expense MFIs that were in a category C shown improvement in the year between 2011 and 2016 but in 2010 the OSS of this category shows that 85% which means these MFIs would able to cover their operating expense. However, from that year much improvement has seen. An OSS of 100% is the stage that MFI has to reach for its way to the long financial viability term but if its smaller than that, it must go for compensation by grants unless otherwise its equity will be reduced and eventually losses (Berne, 2005).MFIs in category B of MFIs shown that impressive progress which is higher OSS in the last seven years with the exception of 2011, 2012 and 2016 in which their OSS have been 178%, 188%, and 193% respectively. In general, the OSS ratio of the Ethiopian MFIs in the last seven

years (2010-2016) have been greater than 100% which means they have been covering their all operational cost from their generated revenue without relying on donors.

Financial Self-Sufficiency

FSS of institutions is important for MFIs to get funds that are required to reach a large number of poor people. As it was proven by Devid S., et al., (1997) in their study based on working toward FSS while maintaining commitment in terms of serving the poorest people, there is no important trade-off in serving between the attainment of self-sufficiency of institutions and a large number of poor household. FSS defined as the ability that MFIs cover their all actual expenses that are related to the operation, and adjustments as well for subsidies and inflation, adjusting the generated income in its financial services operation. Working towards FSS of institutions is important for MFIs to reach the poorest people that are living in poverty and get significant benefit. According to Christen, et al., (1995), the ability of the institution to operate at profitability level of service delivery with no dependence or minimum donors is allowed. FSS of MFI in Ethiopia is summarized in below figure 4.3.

Figure 4.3: Financial Self-sufficiency of Ethiopian MFIs (2010-2016)



	2010	2011	2012	2013	2014	2015	2016
Category A FSS	95%	114%	111%	106%	104%	112%	66%
Category B FSS	100%	78%	88%	107%	113%	123%	93%
Category C FSS	-15%	11%	27%	41%	56%	60%	62%

Source: Author's computation based on NBE of MFIs categorization, 2017

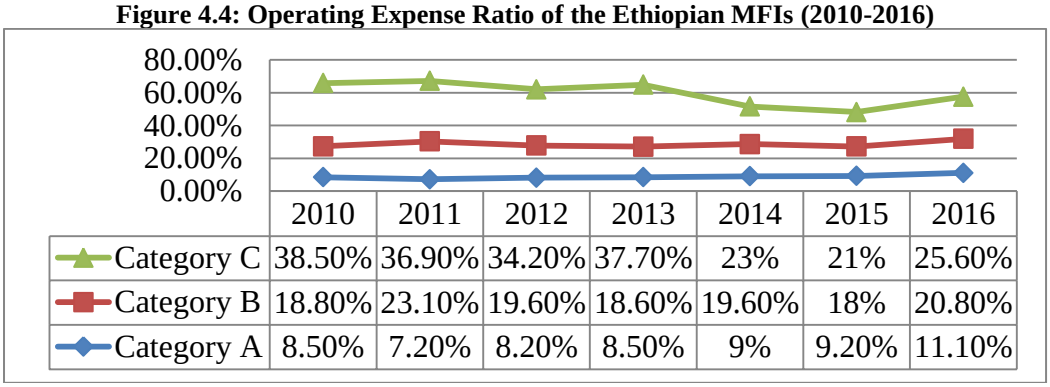
Figure 4.7 regarding the financial self-sufficiency of the Ethiopian MFI it has been found that based on the different categories of MFI that has been done for the study so as to analyze their performance. The FSS calculated for category A MFI show that an increase has seen in the years of 2011-2015 in which their FSS was in between 114% and 104% which mean the Ethiopian category A MFI have been able to cover all their actual expenses that were related to their operation but in the year 2016 a much decrease of FSS has seen that is 66% which is to mean that their financial breakeven is yet to be covered.

Category B MFI had been the ability that they could cover their all actual expenses that were related to their operation as their calculated FSS clearly shows us that except in the year of 2010 and 2016 all the calculated FSS were greater than 100% which mean FSS ratio of greater than 100% is recommended for MFI to cover their operating expenses. While the last category C MFI calculated FSS were below 100% which is to mean that this category of MFI had been doing their operation through subsidies.

4.2.5. Efficiency

Efficiency indicator used for MFIs performance measurements is less comprehensive than profitability performance measure indicator for MFIs (Tor Jansson, 2013). According to the MFSYS, the rates of MFIs are much lower than commercial banks in terms of efficiency because of a dollar per basis; it's highly intensive in terms of labor, for example, microfinance institutions' hundred loan requires administrative effort as much as a loan of thousand times in a commercial. The operating expense ratio is one of the commonly used efficiency indicators that express expenses that are nonfinancial as a percentage of the gross loan portfolio and can be calculated by dividing all expenses related to the MFIs' institution including all salary and administrative expenses and depreciation and board fees by period average gross portfolio. However, expenses that are extraordinary are not included. It also referred to as the efficiency ratio because of its being the best indicator for the overall lending institutions' efficiency. OER provides overall lending institutions' efficiency, for this reason. It measures the cost of loan services delivering compared to its portfolio of average loan size. Therefore, the efficiency of the lending institutions is higher when the operating expense ratio is low (Ferdousi, Farhana 2013).

Figure 4.4: Operating Expense Ratio of the Ethiopian MFIs (2010-2016)



	2010	2011	2012	2013	2014	2015	2016
Category C	38.50%	36.90%	34.20%	37.70%	23%	21%	25.60%
Category B	18.80%	23.10%	19.60%	18.60%	19.60%	18%	20.80%
Category A	8.50%	7.20%	8.20%	8.50%	9%	9.20%	11.10%

Source: Author's computation based on NBE categorization of MFIs, 2017

The institutional cost of providing loan is measured by operating expense ratio. When the operating expense is lower, the institutions experience higher efficiency. Having in mind this concept the study measured the Ethiopian MFIs efficiency using operating expense ratio as summarized in the above figure 4.4. The Ethiopian MFIs found in the category C or Small MFIs are less efficiencies than their category B (medium peer group) and category A (large peer group) counterparts of MFIs in Ethiopia. as it can be revealed from the above figure, in year between 2010 to 2013 the small peer group of MFIs registered the highest operating ratio that is 38.5% in the year 2010, 36.9% in 2011, 34.2% in 2012, and 37.7% in the year 2013, however all the peer category of MFIs in Ethiopia experienced a trend of lower operating expense ratio in the year between 2014 to 2016 that is 23 % to 25.6 %.

The other counterparts of peer category of MFIs that are category B registered within that period lower operating expense ratio than small category which is; 18.8% in 2011, 23.1% in 2011 year, 19.6% in 2012, 18.6% in 2013, however this peer category of MFIs operating expense ratio increased in 2016 and reached 20.8%. In addition to these peer group of MFIs in Ethiopia that is small (category C) and medium (category B), the large (category A) registered lower operating expense ratio than the other peer group MFIs in the year 2010 to 2016 that is in between 7.2% to 11.1 %.

4.2.6. Welfare Impact

To improve the welfare of the poor is the main objectives of MFIs, how well MFIs fulfills the need of the poor or the poorest. According to Patil, Jayanthi (2016) MFIs can only achieve its objectives through two approaches; Institutional and welfare approach; Institutional approach is an approach that measures the success by the institutions' sustainability assuring self-sustainable MFIs that likely contribute more for the poverty reduction and expansion of income while the second approach is welfare approach which measures the success by how well MFIs fulfill the need of the very poor in the short term. Performance of MFIs should be with the predetermined objective of the institutions.

The main objective of the Ethiopian microfinance institutions that were established for was to provide financial services to the population that was not served by the formal banks and this objective was translated into an action later on. According to the proclamation number 40/1996 of Ethiopia, the credit-extending activity in kind or in cash, urban entrepreneurs that are small and peasant farmers, size of the loan that shall be fixed by the national bank of Ethiopia can be treated as micro-financing business. Related to this proclamation article 3 MFIs should provide counseling service to their clients, rural and urban MSEs owners and operators; and providing marketing, managerial, administrative and technical advice to the borrowers are clearly specified (Walday Am., et al.., 2017).

4.7. MFIs objective in reducing poverty

What are the objectives of MFIs in reducing poverty (Welfare Impact)?					
		Frequency	Percent	Valid %	Cumulative %
Valid	Financial and none-financial service are provided to the clients to eradicate poverty and improve their living standard	37	49.3	49.3	49.3
	Outreach in financial inclusion of the unbanked population of the region	36	48	48	97.3
	The SMFIs' objective in reducing poverty is to make social change by providing start-up capital and training to the needy poor	2	2.7	2.7	100
	Total	75	100	100	

Source: Field Survey, 2017

As it can be revealed from the above table 4.11 about the welfare impact of Ethiopian MFIs, the respondents of the study particularly SMFI, 49.3%, 48%, 2.7% of the total respondents said that; Financial and none-financial services are provided to the clients to eradicate poverty and improve their living standard, Outreach in financial inclusion of the unbanked population of the region, and The SMFIs' objective in reducing poverty is to make social change by providing start-up capital and training to the needy poor respectively.
In Ethiopia, financial service providers involve an active participation of regulatory networks such as; development programs or projects, MFIs, AEMFI, and financial cooperatives. On the government side, there are a number of institutions that participate such as; FeMSEDA, ReMSEDA and cooperatives agencies at the federal level. MFIs have a great welfare on the eradication of poverty over the glop particularly developing countries like Ethiopia, but there are some studies that show it has no effect on household such as in Botswana according to the survey conducted in Botswana on "the Impact of Microfinance on Household Welfare in Botswana" done by Francis Nathan Okurut, Mangadi Kagiso, Njoku Ola Ama and Margaret Leah Okurut.

V. CONCLUSION

This study sought to assess the performance of about thirty-one MFIs that are operating in the country. Primary and Secondary data have been collected from the NBE, AEMFI, and SMFI. To analyze the performance of Ethiopian MFIs there were about five basic indicators used such as; outreach, collection performance, financial sustainability, efficiency, and welfare impact suggested by Richard Rosenberg. The clients of the Ethiopian MFI were not poor because of their average outstanding loan of GNI per capita or average outstanding loan which is higher than 20% in which it has been treated as an indication of very poor if it's below 20%. On the profitability, Ethiopian MFIs have been measured using both the commonly used indicators to measure the ability of MFIs' future of operation and shown that they have been improving in 2010-2016 with exception of 2016 in which both RoA and RoE shows a little decline. Besides RoA and RoE, the calculated OSS proved that Ethiopian MFIs cover their operating cost with their own generated revenue from their operation which shows us a ratio that is greater than 100%. All the three peer category of MFIs in Ethiopia experienced a lower operating expense trend in 2014 to 2016 which is mean that a higher efficiency of MFIs was experienced. Despite the millions of poor people lacked the access of financial services in Ethiopia in general, the study result show that the Ethiopia MFIs are serving clients which are not poor which lead the study to conclude that the Ethiopian MFIs are not performing their operation as they are not reaching many poor people living under the poverty line which can be said that their performance is poor. It also needs to be improved in terms of not covering their financial breakeven to mean that some of the MFIs in Ethiopia cannot cover their operating expense, but are good in terms of breadth outreach.

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