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An Evaluation of the Current Status of Microfinance Institutions (MFIs) In Ethiopia

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Abstract

The foremost rationale of this article is to make an evaluation of the current standing of MFIs in Ethiopia. The appraisal was made against indicators included types of ownership of MFIs, duration the firm operation, number of employees in the head quarters of the sampled MFIs, mode of maintaining the records of MFIs, types of financial services offered, financers of MFIs, market segment of MFIs, geographical coverage of MFIs, size of MFIs, and the body that governs and supervise the MFIs. The article largely used primary data since such data is not available from secondary sources. And also the study made use of a self-developed questionnaire that was administered to the respondents by the researcher. In addition, the nature of the study rendered analysis techniques to employ descriptive statistics. The results of the analysis were presented in cross tabulation frequency tables to show the general phenomenon of variables being measured. SPSS statistics version 20.0 was used for descriptive statistics such as creating cross tabulation frequency tables. Based on the empirical evidence of this study, it was found out from the study that, considering the undertaken performance indicators, most of Microfinance Institutions in Ethiopia have performed well from year to year during the period under review. Finally, the trend in performance of microfinance institutions during those years of operation was encouraging. Thus, the study recommends that Microfinance Institutions in Ethiopia to be successful and sustainable, a successful economic development strategy must be crafted to compete and to thrive today's global economy.

Key Words: *Microfinance Institutions in Ethiopia, Evaluation, MFIs' Status*

1. INTRODUCTION AND BACKGROUND

In the last three decades or more, microfinance institutions (MFIs), as an effective tool, to fight poverty have been gaining wider attention in the globe among policy makers, governments, international donors, and academicians (ADB, 2000; Robinson, 2001; Barr, 2005; Herms et al., 2009). MFIs as instruments of development promise to have a key role in reducing poverty by providing financial services to the poor who have little or no access to formal financial services. MFIs are critical for poverty reduction as they could enable the poor to gradually build their assets, develop their enterprises, enhance their earning capacity, smoothing consumption, and manage their risks better (Robinson, 2001). Currently, according to Market Information Exchange (MIE) report (2009), more than 1800 microfinance institutions around the world have loaned $65 billion to about 90 million low income people.

MFIs are special financial institutions which emerged with social and financial objectives (Gutierrez-Nieto, 2005). MFIs are relatively small financial institutions that have traditionally provided small loans (micro-credit) to low income citizens with the objective of helping them to engage in productive activities or microenterprise (Hassen,2009).They give poor people particularly women and small businesses access to financial services.

MFIs differ from traditional financial institutions in the sense that they provide services to low income customers and often provide loans without the conventional form of collateral. Moreover, they also provide skill-based training to enhance productivity and organizational support, and consciousness-building training to empower the poor. The financial services of such institutions target the poor through innovative approaches which include group lending, progressive lending, regular repayment schedules, and collateral substitutes. The fact that microfinance institutions tend not to operate in the same way as traditional banks does not mean that they are not interested in profitability, sustainability and efficiency issues.

In Ethiopia, the poverty reduction strategy is becoming the operational framework to translate the global MDGs targets in to national action (UNDP 2005). Micro finance service intervention in Ethiopia have also be considered as one of the policy instrument of the government and non government organizations (NGOs) to enable rural and urban poor increase output and productivity, induce technology adoption, improve input and productivity, induce technology adoption, improve input supply, increase income, reduce poverty and attain food security.

According to Alemayew Y., 2008, (citing the work of Wolday, 200), the sustainability of micro finance institutions that reach a large number of rural and urban poor who are not served by the conventional financial institutions, such as the commercial banks, has been a prime component of the new development strategy of Ethiopia.

2. LITERATURE REVIEW

Initially, micro credit started as a government and non-government organizations motivated scheme. Following the 1984/85 severe drought and famine, many NGOs star started to provide micro credit along with heir relief activities although this was on a limited scale and not in a sustained manner (IFAD 2001). The Government also sporadically provided loans largely for the purchase of oxen through its Rural finance Department of the Ministry of Agriculture and cooperatives. But these loans were not based on proper needs assessment and no mechanism was in place to monitor their effectiveness. In many cases, these loans were not to be repaid and might have fostered a culture of not repaying loans (Alemayew.Y. 2008).

In the literature the terms micro credit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. Sinha (1998), (as referred in the work of Alemayehu, 2008) states "micro credit refers to small loans whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc). Therefore micro credit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services.

According to Arif Singapurwoko, 2014, ownership is an important element of corporate governance, which will determine the corporate performance especially MFIs (Campion (1998) and Mersland and StrØm (2007)). The researcher referred to the work of Zhuang (1999) and identifies two important aspects, namely the concentration of ownership and ownership composition. The concentration of ownership emphasis on the distribution of power between shareholders and managers, which is divided into small shareholder, or shareholder ownership; and a large spread or concentrated ownership. The composition of ownership of who its shareholders and who controls the company. Characteristics of leadership and management of the company will be determined by the characteristics of the owner of the company.

Controlling for the non-random assignment of supervision via treatment effects and instrumental variables regressions, the analysis finds that supervision is associated with substantially larger average loan sizes and less lending to women than in ordinary least squares regressions, although it is not significantly associated with profitability. The pattern is consistent with the notion that profit-oriented microfinance institutions absorb the cost of supervision by curtailing outreach to market segments that tend to be more costly per dollar lent. By contrast, microfinance institutions that rely on non-commercial sources of funding (for example, donations), and thus are less profit oriented, do not adjust loan sizes or lend less to women when supervised, but their profitability is significantly reduced (Robert Cull e*t. al., 2009).*

3. Research Methodology

3.1. Research Design

This study was a descriptive survey. Descriptive survey was preferred for it is used to obtain information concerning the current status of a phenomena and purposes of these methods is to describe "what exists" with respect to situational variables i.e. this helps to explain the relationship between and among variables.

3.2. Population of Study

The population of study comprised of all the managers and field officers of the Microfinance Institutions in Ethiopia.

3.3. Sample Population

The population of interest in this study consisted of 102 respondents who were managers, officers, accountants and attorneys from every of eight sampled Microfinance Institutions in Ethiopia. This study was limited to the head quarters of the institutions so as to obtain the relevant data on the subject matter. Purposive sampling was used in the selection of the institutions and respondents.

3.4. Data Collection

This study was facilitated by the use of primary data. Primary data was collected from the managers and the fields/operations staff of the institutions using self-developed questionnaire. The questionnaire addressed the objective of the study.

3.5. Data Analysis

The data obtained from the questionnaire was grouped based on the research questions and analyzed by descriptive statistics such as frequency percentages, and bar charts. The statistical package for social sciences (SPSS) was instrumental in establishing the data associations, which eventually led to conclusions on the objective of the study.

4. Results and Analysis

4.1. Findings and Discussions

4.1.1. Types of Ownership of MFIs

MFIs are required to form their legal entity (either as government, private or NGO) status if they choose to operate as microfinance institutions.

Table 4.1 Types of Ownership of the Sampled MFI

	Frequency	Percent
Government	41	40.2
Private	52	51.0
Valid NGO	9	8.8
Total	102	100.0

Source Research Data, SPSS 20, 2016

Knowing the type of business was one of the questions asked to respondents during the survey. As shown in table 4.1 above, 52 respondents (representing 51% of the total) indicated that their institution is a private MFI, 41 respondents (representing 40.2% of the total) responded as their institution is governmental while the rest of respondents replied that their institution type is NGO. The result therefore, shows that majority of the MFIs are privately owned followed by government institutions. This implies that private institutions might have faced lack of attentions from the government since the government mostly favors those institutions which are governmental. Even the financial support from the government side may not be strong which leads to sustainability issue. In other words, governmental institutions are highly supported by the government in many aspects while the least support is given to private institutions.

4.1.2. Duration of the Firm

The study also sought to find out the duration that the firms had operated in Ethiopia. From the study, as it can be seen from table 4.2, the majority of the firms had been operating in Ethiopia for over 15 years as shown by 59.8% of the respondents, 37.3% of the firms had been operating in Ethiopia for 11-15 years while 2.9% of the firms had been operating in Ethiopia for 6-11 years. This implies that almost these institutions might have the chance to achieve their sustainability right now since the minimum operational year for achieving sustainability is 5 years as quoted by many scholars in the literature.

Table 4.2 Duration the Firm has been in Operation in Ethiopia

	Frequency	Percent
6-10 years	3	2.9
11-15 years	38	37.3
Valid More than 15 years	61	59.8
Total	102	100.0

Source Research Data, SPSS 20, 2016

4.1.3. The Institutions Headquarter

From the study, the headquarters of the majority of these Microfinance Institutions was in the capital, Addis Ababa.

Table 4.3 Number of Employees the Organization has in the Head Quarter

	Frequency	Percent
11-15	9	8.8
16-20	3	2.9
Valid 26-30	2	2.0
Over 30	88	86.3
Total	102	100.0

Source Research Data, SPSS 20, 2016

The study also sought to find out the number of employees that the microfinance institution has in the head quarter. From the findings, as it is indicated from table 4.3, the majority of the firms had over 30 employees as shown by 86.3% of the respondents, 8.8% of the firms had 11-15 employees, 2.9% of the firms had 16-20 employees, while 2.0% of the firms had 26-30 employees in the headquarters.

Manpower, being one of the engines for operational activities, is highly relevant factor for MFIs' sustainability. Both the type and kind of employees in the institutions affects the working environment of institutions. Respondents of this study were asked to make a response on the number of employees working only in the head quarter of the sampled MFIs. The reason for considering head quarter employees was that these employees mostly deal with strategic issues along with key individuals.

Furthermore, the result indicates that most of the institutions had more than 30 staff members in the head quarter which is represented by 86.27% of responses from the respondents of this study. This tells us that institutions in their head quarter had enough number of employees which counts more than 30.

4.1.4. Mode of Maintaining MFI's Records

Table 4.4 Mode of Maintaining the Records of MFI

	Frequency	Percent
Manual	6	5.9
Computer	60	58.8
Valid Both Manual and Computer	36	35.3
Total	102	100.0

Source Research Data, SPSS 20, 2016

The findings in the table 4.4 show how the records in the microfinance institutions were maintained. From the study, the majority of the firms as shown by 58.8% of the respondents maintained their records by use of computers, while 5.9% of the institutions maintained their records manually.

The result indicates that most of the MFIs are performing their operations and keeping their activities safe with the help of computers which is a modern type of doing/serving clients these days.

4.1.5. Financers of the Institutions

Table 4.5 Financers of the Institutions

	Frequency	Percent
Local Authority	40	39.2
Members/SACCOS/	2	2.0
Churches	6	5.9
Individual Owners	15	14.7
Valid Other Institutions	36	35.3
Local Authority & International Institutions	3	2.9
Total	102	100.0

Source Research Data, SPSS 20, 2016

The study also sought to find out who the donors of the microfinance institutions in Ethiopia were. From the findings, the majority of the respondents reported that the institutions were financed by the local authority as indicated by 39.2%, 35.3% of the respondents said that they were financed by other institutions, while 14.7% of the respondents said that the institutions were financed by the individual owners.

4.1.6. Types of Financial Services

As it was indicated by respondents, all respondents (representing 100%) from each sampled MFI responded "Yes" regarding the question of saving financial services. This implies that all of the institutions have been providing saving financial services to their clients as one of the core objectives of any MFIs once it gets established. Based on the results, it can be concluded from the findings that saving is one of the financial services provided by all of the institutions included in this study. However, whether the saving type was voluntary or compulsory is not considered here since the researcher believed that it was not that much essential for the study.

The study also asked respondents on credit financial services to clients. All the respondents (representing 100% of the total) replied as their institution provides the service to clients fully. The result reveals that clients who are excluded from financial access due to lack of collaterals are able to get the credit financial service from the MFIs rather. This credit service enables them to borrow finance from the institution and utilize the money to engage in different business activities so as to generate income for their day-to-day activities. Here again, it can be seen that all of the MFIs included in this study are striving to achieve their objectives by providing credit financial service to their clients.

Table 4.6 Offer Insurance Financial Service to Clients

		Frequency	Percent
Valid	Yes	66	64.7
	No	36	35.3
	Total	102	100.0

Source Research Data, SPSS 20, 2016

Table 4.6 shows that 36 respondents (representing 35.3% of the total) said that their MFI does not provide insurance financial services to clients while 66 respondents (representing 64.7% of the total) responded that insurance financial services have been offered by their institutions to their clients. The result reveals that more than half of the respondents indicated that their MFIs provide insurance financial services to clients as part of their key operational activities.

It is rational to understand here that offering insurance service to clients would help their repayment default rate being low since they are backed up by insurance schemes. Moreover, most of the institutions offer the service knowing that offering this service brings an additional income for the company since clients are required to pay a sum of annual premium regularly which is another source of income for the institution.

The result surprises us because, in general, it is only some microfinance institutions offer a form of insurance – so-called "micro insurances". But still, the dangers for people in developing countries and threshold countries like Ethiopia are significantly higher than they developed once. The poor living conditions make disease more probable. People are often malnourished, the quality of water is poor, and the possibilities for an adequate level of hygiene do not exist. The risk of accidents is relatively high, since safety regulations are often ignored or cannot be complied with. Finally, the possibility of being affected by a natural disaster is also significantly higher. People living below or barely above the poverty line are exposed to dangers against which a micro insurance can offer a certain level of protection. It can be therefore concluded that even if most of the institutions are offering insurance services to their clients, based on the observed facts, these institutions will be affected provided that the clients are still acquainted with the aforementioned risk.

Moreover, it is also questionable whether insurance is of as much value to the very poor, as the cost to transfer the risk may be too high for them. Some institutions that have provided insurance say that clients get benefits from protection against extreme hardship caused by death or catastrophe. Such disasters often hurt the poor more than the rich.

Table 4.7 Offer Third Part Fund Mgmt. Financial Service to Clients

		Frequency	Percent
Valid	Yes	11	10.8
	No	91	89.2
	Total	102	100.0

Source Research Data, SPSS 20, 2016

Table 4.7 indicates only 11 respondents (representing 10.8% of the total) replied that their institution offers a third-party fund management financial service and the remaining 91 respondents (representing 89.2% of the total) responded as their institution had not been offering the service to clients.

This result might be related with the legal aspects of the country. Meaning to say that those government types of microfinance institutions are highly backed by the laws and rules of the government and they may not be afraid of the risk of dealing with this fund management aspect.

4.1.7. Market Segment of MFIs

Knowing the target group of microfinance institutions was very important in the questionnaire of this study. Table 4.8 indicates that 99 respondents (97.1%) said "yes" women are the main target groups of the MFIs whereas only 3 respondents (2.9%, almost 3%) replied that women are not the target group for their institutions. The results show that most of the MFIs are more targeting on women. This implies that institutions are trying to empower women by letting them have access to financial services so that they can have their own business.

Table 4.8 Serve Women as Target Group

		Frequency	Percent
Valid	Yes	99	97.1
	No	3	2.9
	Total	102	100.0

Source Research Data, SPSS 20, 2016

Here, it can be concluded that most of the institutions are striving to achieve one of the crucial objective of MFIs, which is empowering women while performing and involving women in their operations as well.

Table 4.9 Serve Groups as Target Group

		Frequency	Percent
Valid	Yes	82	80.4
	No	20	19.6
	Total	102	100.0

Source Research Data, SPSS 20, 2016

Group based credit lending scheme is the most popular credit lending system of microfinance institutions. Therefore, it was so important to know the lending systems of the sampled MFIs in delivering their financial services to groups. Respondents were asked in the questionnaire to respond on whether the institutions are serving groups as their target group for delivering their financial services or not. As it can be seen from table 4.9 above, 82 respondents (80.4% of total) indicated that their institutions provide financial services on a group base lending system while 20 respondents (19.6% of total) said no.

4.1.8. Geographical Coverage of Microfinance Institutions

The geographical coverage of microfinance institutions was examined considering rural and urban areas and number of branches as parameters of measurement.

Urban & Rural Areas

Table 4.10 Geographical Areas Served/Reached

		Frequency	Percent
	Only Rural	1	1.0
	Only Urban	7	6.9
Valid	Both Rural and Urban	94	92.2
	Total	102	100.0

Source Research Data, SPSS 20, 2016

Geographical coverage of MFIs is one of the key success factors against which each institution is being measured. A question was included in the questionnaire to respondents in order to make a clear demarcation about which geographical area is most served by the sampled institutions. As indicated from table 4.10, 94 respondents (representing 92.1% of total) confirmed that both rural and urban areas are reached by institutions; 7 respondents (representing 6.9% of the total) responded that only urban areas are being served by their institutions, and the remaining 1 respondents (representing 1% of the total) said only rural area is covered which is almost nil. The results reveal that both urban and rural areas are being covered. This implies that economically active poor clients from both geographical areas are being served by the institutions.

Number of Branches

Number of branches is one of the key indicators of the size of MFIs. Knowing the number of branches each institution had was very important. Respondents were asked in the questionnaire to respond on the exact number of branches that their institution has in the country. The coverage of microfinance institutions was measured by branch network and the number of clients they were operating in. The regulation requires the MFI to choose whether to operate within a particular region (community) or nationwide.

Table 4.11 How many branches you have currently?

		Frequency	Percent
	Less than 20	20	19.6
	20-40	23	22.5
Valid	41-61	18	17.6
	More than 124	41	40.2
	Total	102	100.0

Source Research Data, SPSS 20, 2016

According to the data collected in this research, on branch base, 41 respondents (all respondents from government institutions) indicated that they had more than 124 branches, 18 respondents (from VF private institution) had branches from 41 to 61, 23 respondents (11 from BGMFI & 12 from PEACE MFI-both private) had branches between 20 to 40 and other 20 respondents (20 from MMFI, 8 from SFPI & the remaining 3 from AGGAR-here again all are private MFIs) indicated that they had branches less than 20 in the country. Indeed, it can be concluded that government type of MFIs (for instance, OCSSC and AdCS) has expanded and opened more branches in different areas as compared to the private once. But it cannot be safe to say that this number of branches have been equality distributed in different areas because it has been observed that three or four MFIs (serving the same clients and delivering the same financial products) are fighting each other. The competition is intended to kill each other rather than going for the betterment of the life of poor clients.

4.1.9. Size of Microfinance Institutions

In this study, knowing the size of sampled MFIs was important while examining the current status of the institutions. For this purpose, assets of the institutions (in terms of liabilities and capital) and number of current borrowers as of June 2014 were used as parameters of examining the size of the MFIs. In the questionnaire, respondents were asked to respond on liability, capital and the current number of clients just to highlight the size of the institutions.

Table 4.12 The Capacity of MFIs in terms of Liabilities as of June 2014 (in Ethiopian Currency -Birr)

		Frequency	Percent
Valid	Less than 100	24	23.5
	100-200	19	18.6
	201-301	18	17.6
	More than 604	41	40.2
	Total	102	100.0

Source Research Data, SPSS 20, 2016

On liability base, as it can be seen from table 4.12, three institutions (23.5% of total) had total liabilities valued at less than Ethiopian Birr 100 million, two institutions (18.6% of the total) with liability value of between Birr 100 million to birr 200 million, one institution (17.6% of total) had liability value of between 201 million birr to 301 million birr and another two institutions (40.2% of total) with more than half a billion Ethiopian birr.

Table 4.13 The Capacity of MFIs in terms of Capital as of June 2014 (in Ethiopian Currency -Birr)

		Frequency	Percent
Valid	Less than 100	43	42.2
	201-301	18	17.6
	504-604	18	17.6
	More than 604	23	22.5
	Total	102	100.0

Source Research Data, SPSS 20, 2016

On capital base, table 4.13 indicates that 43 respondents (42.2% of total) reported that institutions had total capital valued at less than Ethiopian Birr of 100 million, 17 respondents (17.6% of the total) reported with capital value of between Birr 100 million to birr 200 million, 18 respondents (17.6% of total) indicated as institutions had capital value of between 201 million birr to 301 million birr while the remaining 23 respondents (22.5% of total) reported with more than half a billion Ethiopian birr.

It was also very important to know about the number of borrowers the institution has as one of the key parameters in examining the status of microfinance institutions in the study. In the questionnaire, one of the questions regarding number of clients was given to sampled respondents from each sampled institution and their responses are given in the table below.

Table 4.14 Number of Clients Served currently as of June 2014

		Frequency	Percent
Valid	5-10	3	2.9
	16-20	9	8.8
	More than 20	90	88.2
	Total	102	100.0

Source Research Data, SPSS 20, 2016

On number of clients base, table 4.14, indicates that 90 respondents (representing 88.2% of total) responded that institutions had number of clients more than 20, 000, 9 respondents (representing 8.8% of total) said that institutions had number of clients between sixteen thousands to twenty thousands and another 3 respondents (representing 2.9% of total) replied that the number of clients was between five thousands to ten thousands.

4.1.10. Legal Frameworks

Ascertaining the laws governing the firm as a MFI in the country was very important provided that there is a legal framework in the financial system of a given country. Table 4.15 below shows the details on the issue rose.

Table 4.15 Regulations that Governs the Microfinance Institutions in Ethiopia

		Frequency	Percent
Valid	Central Banking of Ethiopia Act	102	100.0

Source Research Data, SPSS 20, 2016

The respondents were also requested to state the regulation that coverers the role of microfinance institutions in Ethiopia. According to the findings from table 4.15 above, all of the respondents, as shown by 100%, felt that the role of microfinance institutions in Ethiopia was governed by Central Banking of Ethiopia Act.

As it is depicted in table 4.15, all of the 102 respondents (100% of total) confirmed that their institutions being named as a MFI was governed by a body which is Central Bank of Ethiopia.

On the base of legal frameworks, again respondents were asked whether there is a body which supervises the MFIs or not. Their responses were found to be yes.

Table 4.16 Does the government policy on your operations contributes to sustainability of your MFI?

		Frequency	Percent
Valid	Yes	92	90.2
	No	10	9.8
	Total	102	100.0

Source Research Data, SPSS 20, 2016

It was very important in this study to know the feelings of respondents up on the government's policy on their operations. For this matter, respondents were asked: does the government policy on institutions operations contribute to sustainability of their MFIs or not? As it can be seen from table 4.16 above, 92 respondents (representing 90.2% of total) said yes regarding the government policy contributes to the sustainability of MFIs whereas the remaining 10 respondents (9.8% of total) answered no indicating that the policy does not contribute to the sustainability of the institution.

Furthermore, it was also essential to see the extent of the policy on sustainability in the questionnaire. Therefore, in the same questionnaire with a silently different question, respondents were again asked to rank the extent using a sort of scale so as to identify to what extent the institutions have been impacted from side of government policy. The responses of respondents are displayed in the table below.

As it can be seen from table 4.17, the study also sought to find out the extent that the government policies in the operations contribute to the sustainability of the microfinance institutions. From the study, most respondents as indicated by 37.3% reported that the government policies contribute to the sustainability of the institutions to a great extent, 33.3% of the respondents said to a moderate extent, 23.5% of the respondents indicated that the government policies contribute to the sustainability of the institutions to a very great extent while a small proportion of respondents as indicated by 4.9% said to a less extent. This information shows that government policies had a great influence on the sustainability of microfinance institutions.

Table 4.17 The Extent that the Government Policies in the Operations Contribute to the Sustainability of Institutions

		Frequency	Percent
Valid	No Extent	1	1.0
	Less Extent	5	4.9
	Moderate Extent	34	33.3
	Great Extent	38	37.3
	Very Great Extent	24	23.5
	Total	102	100.0

Source Research Data, SPSS 20, 2016

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary of the Findings

From the analysis the following summary, conclusions and recommendations were made. The analysis was based on the objective of the study. The study sought to assess the current status of microfinance institutions in Ethiopia. From the research, the researcher found that 59.8% of the micro-finance institutions had been in operation in Ethiopia for more than 15 years. This clearly indicates that these organizations were well versed with the issue of the sustainability of these micro-finance institutions as they had been in operation for a considerably long time. The study also found that most of these institutions had more than 30 employees in their head quarters. It was also clear that, as reported by 58.5% total respondents, most of the microfinance institutions maintained their records by the use of computers. According to the study, as indicated by 39.2% of respondents, most of the institutions were financed by the local authority.

On financial regulations, according to most respondents, 100% of the microfinance institutions were governed by Commercial Bank of Ethiopia Act regulations. All the microfinance had a body, which supervises them according to the respondents. The laws that govern the institutions regulate and supervise the institutions operations to protect customer's deposits and, ensure that reckless lending does not threaten the stability of the wider financial system and they also react to political pressure to regulate and supervise microfinance institutions operations. The government policies also contribute to the institutions operations, which lead to the sustainability of institutions to a great extent.

5.2. Conclusions

Based on the results, the researcher concluded that both urban and rural areas are covered and being reached by most of the microfinance institution which is encouraging provided that in Ethiopia; it is not only in rural areas but also in urban areas where the poor economically active citizens are found. Moreover, as far as outreach is concerned, the geographical coverage of the institution seems healthy and being accessed both clients from urban and rural areas too.

The size of MFIs in terms of capital is a bit small especially when it comes to private institutions. It can be concluded that most of private institutions assets are more financed by debt financing in having less category of capital brackets.

According to the act drafted by the Central Bank of Ethiopia (CBE), all MFIs had to operate and perform without unlawful and fraud activities. Based on the results, the researcher concluded that the existence of this governing law is highly encouraging to ensure the rules and regulation of the laws applied/if not take appropriate measures/ on those institutions going beyond the law.

From the study, the researcher concluded that the government policies related to MFIs i.e. law that covers the microfinance in Ethiopia, and the supervision of the microfinance institutions influences the success and the sustainability of the microfinance institutions. Moreover, based on the results, it might be understood that since the institution is being supervised/regulated/governed by National Bank of Ethiopia /NBE/. It has been witnessed that these governing body laws/regulations/ have a positive impact on operations of the MFIs. Furthermore, supervising the institution could also be useful for the sake of trust building to MFI's clients/customers since clients trust those MFIs which are registered by the law according to the rules and regulations. Besides, the supervisory body monitors portfolio quality, amount of arrears and minimum cash liquidity on hand.

Anyone can understand from the responses of the study that even if majority of the respondents had a positive feeling about the contribution of the government's policy on the sustainability of MFIs, some of the respondents had a feeling that the contribution of government policy rather had a negative effect on the sustainability of the institutions. Based on the negative feelings of these few respondents, it could be possible to conclude that the policy could hinder institutions to reach extremely very poor societies because of the need of group collateral and pre group loan saving of some percent to take loans from MFIs; or even being a government MFI, the government is a chairman/board/ which opens the room for the government to exercise its political power in selecting the management which would be from the government side only. Those selected managements then want to lead the institution according to the existed political orientation but not as a separate business entity. This has been a great problem in some MFIs which are owned by the government. However, based on the rate responses of respondents, it was rational for the researcher to conclude that in general, the government policy had has a positive effect as there are some conducive laws/policies/ on the sustainability of many of the institutions such as exemption of taxes/income tax/ if dividend is not paid.

The result reveals that the government policy had a great extent or effect on the sustainability of MFIs which was felt positively in the spirit of most of the respondents followed by a moderate extent. From this it can be concluded that in most case the effect of the governing body created a forcible environment for and contribution effect which is good for normal operation of effective use of its service and could have a regulatory effect (limits the financial activities and regulate the institution's operation activities within the legal framework of financial institutions) while checking whether the money is working or not from the side of customers.

5.3. Recommendations

The study recommends that microfinance institutions should open many branches so that they can be able to reach as many as possible which will enhance their current performance. For microfinance institutions to survive well in the market, the study recommends conformity to rules and regulations regarding registration. They should be run by qualified members effective regulation and supervision of the operations and considering attracting the poor people in their regions by giving those loans at much lower interests.

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