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SEVERITY OF THE FACTORS IMBEDING THE SUSTAINABILITY OF MFIs IN ETHIOPIA

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ABSTRACT

This paper aimed to study and identify the factors affecting the Sustainability of Microfinance Institutions operating in Ethiopia. The findings of this study revealed that educational level of clients, lack of information about customer, client focus (delivering what clients need), and integration were the factors that highly affected the sustainability of Microfinance Institutions in Ethiopia. Also, the finding indicated that both the loan payment/default risk/ and inflation are among the operational factors that cause the lack of sustainability and eventual failure of such operational schemes. Furthermore, the study found that out of the strategic trait of sustainability factors, technology was found to be the foremost which influences the sustainability of Microfinance Institutions in Ethiopia. The study also established that availability of capital to lend to clients was found to be the regulatory feature which typically affects the sustainability of Microfinance Institutions in Ethiopia. Thus, based on the findings, the study recommends that Microfinance Institutions in Ethiopia to be successful and sustainable, a successful economic development strategy must be crafted which should focus on improving the skills of the staff/workforce/management skills/, reducing the cost of doing their business especially high transaction costs related with increasing outreach, and making available the capital to lend institution needs to compete and thrive today's global economy.

***Keywords**: Sustainability Factors, Microfinance Institutions in Ethiopia, MFIs' Status*

INTRODUCTION

More than one out of five people in the world - about 1.4 billion people - are regarded as living in poverty (Biekpe, 2007). In Africa, the figure in proportion to the world's figure is even higher. Having been in existence over the last twenty years, microfinance is seen as one of the most effective tools to fight poverty in Africa.

The development of Microfinance Institutions in Ethiopia is a recent phenomenon. The proclamation, which provides for the establishment of microfinance institutions, was issued in July 1996. Since then, various microfinance institutions have legally been registered and started delivering microfinance services (Wolday A., 2000). In particular, the Licensing and Supervision of Microfinance Institution Proclamation of the government encouraged the spread of Microfinance Institutions (MFIs) in both rural and urban areas as it authorized them among other things, to legally accept deposits from the general public (hence diversify sources of funds), to draw and accept drafts, and to manage funds for the micro financing business (Getaneh, 2005).

Although microfinance has been present in Ethiopia since 1996s, this sector has fallen short on achieving widespread outreach and sustainability, hence compromising on client impact. Furthermore, poverty levels have deepened as a consequence of the increasing level of unemployment. One of the justifications of the advancement of microfinance is that, a microfinance sector that is both profitable and sustainable can ultimately impact positively on the lives of the poor (The Microfinance Gateway, 2005). In light of this, the existence and the flourishing of MFIs in Ethiopia have implications for sustainability in achieving poverty reduction.

The performance of most microfinance programs, however, has not been encouraging. Many have been plagued with such problems as high default rates, inability to reach sufficient numbers of borrowers, and a seemingly unending dependence on subsidies. Few of them have lived up to their original objective of "including the excluded" (Bhatt, 1997).For such MFIs to be successful, they should be sustainable both financially as well as institutionally. On top of sustainability, one has to include developmental effects like income on the target group as core measure of success. For agencies that are involved in the development or in assisting the development of a microcredit institution, it is recommended that profitability and sustainability should be the final goals, and therefore, the only indicators of success (Rudkins, 1994).

Although the performance of the MFIs in Ethiopia has been impressive since their establishment, they are experiencing default problems which lead to the problem of sustainability. Hunte (1996) argues that default problems destroy lending capacity as the flow of repayment declines, transforming lenders into welfare agencies, instead of a viable financial institution. It incorrectly penalizes creditworthy borrowers whenever the screening mechanism is not efficient. Loan default may also deny new applicants access to credit as the bank's cash flow management problems augment in direct proportion to the increasing default problem.

It is obvious that many rural credit schemes have sustained heavy losses because of poor loan collection. And yet a lot more have been dependent on government subsidy to financially cover the losses they faced through loan default. But, such dependence will not prove helpful for sustainability. MFIs should rather depend on loan recovery to have a sustainable financial in this regard; so that they can meet their objective of alleviating poverty. Various researchers have presented the dynamics of microfinance particularly with regard to sustainability, poverty alleviation and social development among the poor. Little research has been undertaken on the Ethiopian microfinance sector.

RESEARCH METHODOLOGY

Research Design

This study tries to identify the main problems that affect/hinder/ the sustainability of MFIs in Ethiopia. Sustainability implies change and is therefore a process. Examining factors affecting this process require a bit of exploration. The need emanates from the fact that the phenomenon being studied must be understood. So this exploratory study at the beginning of the analysis helps to establish the situation on progress of microfinance sustainability.

Thus, this paper employed a mixed methods approach that used both qualitative and quantitative data collection techniques and analysis procedures. There is an increasing need to "adopt a combination of qualitative and quantitative approaches, which allow statistically reliable information obtained from numerical measurement to be backed up by and enriched by information about the research participants' explanations" (Holah, 2010).

This is an empirical study largely using primary data (Mouton, 2008) since such data is not available from secondary sources. The questionnaire used for this study was self-developed and self-administered.

Population and Sampling Techniques

The target population for this study was formal financial service providers to low-income earners operating as Microfinance Institutions in Ethiopia. According to National Bank of Ethiopia, currently there are 31 Microfinance Institutions in Ethiopia that are serving the people neglected by conventional financial institutions such as Commercial Banks. Out of the 31 MFIs, eight (8) MFIs were taken as samples for this study using non-probability sampling mainly purposive sampling strategy in which total capital, running years, closeness to sustainability, and accessibility of the MFIs' head office were taken into consideration as a selecting criteria. Purposive sampling is a non-probability sampling technique in which subjects are selected for a study because of some characteristic they possess.

The research's scope required a sample size that was limited in relation to the entire market. To ensure a general amount of representation of the sectors, the researchers chose geographic locations and specific MFIs using purposive sampling.

Hence, based on the aforementioned criteria, the eight (8) sampled MFIs and the respective number of selected respondents from the institutions are shown in the table below along with the response rate of the questionnaire distributed.

Response Rate

As shown in Table 2.1 below, the overall response rate was 85 per cent. Out of the targeted 120 respondents from the sampled MFIs, 102 responded representing a response rate of 85 per cent. The remaining 18 respondents were quite busy and could not manage to fill the questionnaire by the time.

Table 2.1 Summary of Response Rate

Sampled MFIs			
Name of MFI	Sampled Respondents	No. of Respondents Responded	Response Rate (%)
1. Oromia Credit and Saving Institution (OCSSCO)	25	23	92
2. Addis Credit and Saving Institution (AdCSI)	20	18	90
3. Vision Fund Microfinance Institution (VF)	20	18	90
4. Bussaa Gonofaa Micro Finance (BGMFI)	17	11	65
5. Specialized Financial and Promotional Institution (SFPI)	10	8	80
6. Poverty Eradication and Community Empowerment (PEACE)	12	12	100
7. Aggar Microfinance (Aggar)	6	3	50
8. Metemamen Microfinance (MMFI)	10	9	90
Total	120	102	85

Source: Researcher, 2015

Questionnaire Design and Data Collection

The purpose of the questionnaire designed for this research was to aid in collecting data that when analyzed would help achieve the research objective of determining the extent of the factors in affecting the sustainability of the MFIs of Ethiopia.

The questionnaire was organized in a way that respondents had to answer Yes or No to the listed problems and then tick the extent of severity that the listed problem has on influencing the sustainability of their organization. The possible listed problems in the questionnaire were organized in four thematic areas included marketing issues, operational issues, strategic issues and regulatory framework issues. Possible factors/problems/ identified under the thematic of marketing issues included lack of information about clients, clients' focus, educational level of clients and number of clients being served. In operational issues, possible factors identified included inflation, interest rates, high operational costs, service/portfolio/ quality, loan payment/default risk/, and skilled staff. Whereas, increased competition, attracting low-income clients, staff turnover, client retention, client supervision, management skill and technology were the possible problems/factors/ identified under strategic issues. Furthermore, other factors/problems identified in the questionnaire under regulatory framework issues included legislation & regulation, availability of capital to lend, inadequate donor funding/ for funded projects/, unregistered lenders, and clear ownership structure.

Data Analysis

After data collection, the researchers checked for completeness of the questionnaires. Then the data was arranged and grouped according to particular research questions. Quantitative data were analyzed using statistical package for social sciences (SPSS). This package was known for its ability to handle large amounts of data and also it was quite efficient.

Data analysis for this research was largely quantitative. Though this was so, most of the data was non-parametric in categorical (nominal) forms limiting modes of analysis. 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 in multiple response analysis to show the general phenomenon of variables being measured.

Unlike having real measurements where we might be unsure about the wisdom of applying parametric methods, it is reasonable to apply nonparametric methods to the data collected from most questionnaires. As non-parametric methods make fewer assumptions, their applicability is much wider than the corresponding parametric methods. In particular, they may be applied in situations where less is known about the application

in question. Also, due to the reliance on fewer assumptions, non-parametric methods are more robust. Another justification for the use of non-parametric methods is simplicity. In certain cases, even when the use of parametric methods is justified, non-parametric methods may be easier to use. Due both to this simplicity and to their greater robustness, non-parametric methods are seen by some statisticians as leaving less room for improper use and misunderstanding.

Use of advanced statistical analysis like ANOVA and regression in this research was limited since most of the data was either ordinal or nominal. In addition to limited interval data, the main focus of analysis was not to analyze differences between groups or make inferences about the population.

Results and Discussions

The objective of this study was to examine the severity level of factors/problems/ affecting the sustainability of MFIs in Ethiopia. This part therefore presents the results and discussions based on responses that were received from the selected respondents. Each respondent in the study was asked to indicate the level of severity in the questionnaire. Each possible identified problems were leveled by three level likert scale response and coded in the SPSS as 1=Not A Severe Problem, 2= Neither, and 3= A Severe Problem. Hence, it starts by reporting, discussing the results and then their interpretation. The results for each likert scale item are presented using a descriptive statistics, mainly cross-tabulation frequency tables.

Table 3.1 Name of Sampled Microfinance Institution * Extent that the Number of Customers Affects the Sustainability of MFI Cross tabulation

			Extent that the Number of Customers Affects the Sustainability of MFI			Total
			Not A Sever Problem	Neither	A Sever Problem	
Name of Sampled Microfinance Institution	OCSSCO	Count	17	4	2	23
		% within Name of Sampled Microfinance Institution	73.9%	17.4%	8.7%	100.0%
	AdCSI	Count	13	3	2	18
		% within Name of Sampled Microfinance Institution	72.2%	16.7%	11.1%	100.0%
	VF	Count	10	4	4	18
		% within Name of Sampled Microfinance Institution	55.6%	22.2%	22.2%	100.0%
	BGMFI	Count	10	1	0	11

		% within Name of Sampled Microfinance Institution	90.9%	9.1%	0.0%	100.0%
	SFPI	Count	7	1	0	8
		% within Name of Sampled Microfinance Institution	87.5%	12.5%	0.0%	100.0%
	PEACE	Count	9	3	0	12
		% within Name of Sampled Microfinance Institution	75.0%	25.0%	0.0%	100.0%
	AGGAR	Count	2	0	1	3
		% within Name of Sampled Microfinance Institution	66.7%	0.0%	33.3%	100.0%
	MMFI	Count	5	2	2	9
		% within Name of Sampled Microfinance Institution	55.6%	22.2%	22.2%	100.0%
Total	Count	73	18	11	102	
	% within Name of Sampled Microfinance Institution	71.6%	17.6%	10.8%	100.0%	

Source: Research Data, SPSS 20, 2015

This question sought to find out the extent that the number of customers being served affects the sustainability of the microfinance institutions. As shown from table 2.1 above, 73 (71.6% of total) respondents reported that the number of customers to the sustainability of the institutions is not a severe problem, and 18(17.6% of total) of the respondents said neither or a moderate, while 11(10.8% of total) said a severe problem/extent. This information shows that the number of customers being served by the institutions had not been a sever influence on the sustainability of microfinance institutions.

Table 3.2 Name of Sampled Microfinance Institution * Extent that the Loan Payment /Default Risk/ Affects the Sustainability of MFI Cross tabulation

			Extent that the Loan Payment /Default Risk/ Affects the Sustainability of MFI			Total
			Not A Sever Problem	Neither	A Sever Problem	
Name of Sampled Microfinance Institution	OCSSCO	Count	14	6	3	23
		% within Name of Sampled Microfinance Institution	60.9%	26.1%	13.0%	100.0%
	AdCSI	Count	7	7	4	18
		% within Name of Sampled Microfinance Institution	38.9%	38.9%	22.2%	100.0%
	VF	Count	6	5	7	18
		% within Name of Sampled Microfinance Institution	33.3%	27.8%	38.9%	100.0%
	BGMFI	Count	9	1	1	11
		% within Name of Sampled Microfinance Institution	81.8%	9.1%	9.1%	100.0%
	SFPI	Count	4	2	2	8
		% within Name of Sampled Microfinance Institution	50.0%	25.0%	25.0%	100.0%
	PEACE	Count	10	2	0	12
		% within Name of Sampled Microfinance Institution	83.3%	16.7%	0.0%	100.0%
	AGGAR	Count	2	1	0	3
		% within Name of Sampled Microfinance Institution	66.7%	33.3%	0.0%	100.0%
	MMFI	Count	6	1	2	9
		% within Name of Sampled Microfinance Institution	66.7%	11.1%	22.2%	100.0%
Total	Count	58	25	19	102	
	% within Name of Sampled Microfinance Institution	56.9%	24.5%	18.6%	100.0%	

Source Research Data, SPSS 20, 2015

Table 3.2 above sought to find out the extent that the loan payment/default risk/ affects the sustainability of the microfinance institutions. It depicts that most respondents which is 58(56.9% of total) reported that the loan payment/default risk/ to the sustainability of the institutions to not a severe problem, 25(representing 24.5% of the total) of the respondents said to a neither extent/moderate extent/, while the remaining proportion of respondents as indicated by 19(18.6% of total) said to a sever extent. The result reveals that even if loan payment /default risk) identified as a sustainability factor, it had not have a severe influence on the sustainability of microfinance institutions rather the opinions of respondents fallen towards the average influence of the factor in affecting the sustainability of MFIs in Ethiopia.

Table 3.3 Name of Sampled Microfinance Institution * Extent that Technology Affects the Sustainability of MFIs Cross tabulation

			Extent that Technology Affects the Sustainability of MFIs			Total
			Not A Sever Problem	Neither	A Sever Prob-lem	
Name of Sampled Microfinance Institution	OCSSCO	Count	9	2	12	23
		% within Name of Sampled Microfinance Institution	39.1%	8.7%	52.2%	100.0%
	AdCSI	Count	5	6	7	18
		% within Name of Sampled Microfinance Institution	27.8%	33.3%	38.9%	100.0%
	VF	Count	10	4	4	18
		% within Name of Sampled Microfinance Institution	55.6%	22.2%	22.2%	100.0%
	BGMFI	Count	4	5	2	11
		% within Name of Sampled Microfinance Institution	36.4%	45.5%	18.2%	100.0%
	SFPI	Count	1	1	6	8
		% within Name of Sampled Microfinance Institution	12.5%	12.5%	75.0%	100.0%
	PEACE	Count	1	3	8	12
		% within Name of Sampled Microfinance Institution	8.3%	25.0%	66.7%	100.0%
	AGGAR	Count	0	0	3	3
		% within Name of Sampled Microfinance Institution	0.0%	0.0%	100.0%	100.0%
	MMFI	Count	0	2	7	9
		% within Name of Sampled Microfinance Institution	0.0%	22.2%	77.8%	100.0%
Total	Count	30	23	49	102	
	% within Name of Sampled Micro-finance Institution	29.4%	22.5%	48.0%	100.0%	

Source Research Data, SPSS 20, 2015

Table 3.3 shows that most respondents as indicated by 49(representing 48.0% of total) reported that technology to the sustainability of the institutions to a severe problem, 30(representing 29.4% of the total) of the respondents said to not a severe problem, while the remaining proportion of respondents as indicated by 23(22.5% of total) said to neither problem. The finding shows that, technology being identified as the first and most sustainability factor in the second objective of this study; it had a severe problem on the sustainability of microfinance institutions in Ethiopia.

Table 3.4 Name of Sampled Microfinance Institution * Extent that Inflation Affects the Sustainability of MFI Cross tabulation

			Extent that Inflation Affects the Sustainability of MFI			Total
			Not A Sever Problem	Neither	A Sever Problem	
Name of Sampled Microfinance Institution	OCSSCO	Count	13	3	7	23
		% within Name of Sampled Microfinance Institution	56.5%	13.0%	30.4%	100.0%
	AdCSI	Count	7	4	7	18
		% within Name of Sampled Microfinance Institution	38.9%	22.2%	38.9%	100.0%
	VF	Count	4	6	8	18
		% within Name of Sampled Microfinance Institution	22.2%	33.3%	44.4%	100.0%
	BGMFI	Count	6	1	4	11
		% within Name of Sampled Microfinance Institution	54.5%	9.1%	36.4%	100.0%
	SFPI	Count	4	3	1	8
		% within Name of Sampled Microfinance Institution	50.0%	37.5%	12.5%	100.0%
	PEACE	Count	3	2	7	12
		% within Name of Sampled Microfinance Institution	25.0%	16.7%	58.3%	100.0%
	AGGAR	Count	0	1	2	3
		% within Name of Sampled Microfinance Institution	0.0%	33.3%	66.7%	100.0%
	MMFI	Count	2	6	1	9
		% within Name of Sampled Microfinance Institution	22.2%	66.7%	11.1%	100.0%
Total	Count	39	26	37	102	
	% within Name of Sampled Microfinance Institution	38.2%	25.5%	36.3%	100.0%	

Source Research Data, SPSS 20, 2015

It was also important to find out the severity level of inflation to the sustainability of the microfinance institutions once it has been identified as one of the most indicated sustainability problems. Hence, as it can be seen from the study table 3.4, most respondents as indicated by 38.2% reported that inflation to the sustainability of the institutions to not a severe problem/extent, 36.3% of the respondents said to a severe extent, while the remaining proportion of respondents as indicated by 25.5% said to a moderate extent. This information shows that inflation had not a severe influence on the sustainability of microfinance institutions.

Table 3.5 Name of Sampled Microfinance Institution * Extent that Client's Supervision Affects the Sustainability of MFI Crosstabulation

			Extent that Client's Supervision Affects the Sustainability of MFI			Total
			Not A Sever Problem	Neither	A Sever Problem	
Name of Sampled Microfinance Institution	OCSSCO	Count	13	8	2	23
		% within Name of Sampled Microfinance Institution	56.5%	34.8%	8.7%	100.0%
	AdCSI	Count	10	6	2	18
		% within Name of Sampled Microfinance Institution	55.6%	33.3%	11.1%	100.0%
	VF	Count	10	6	2	18
		% within Name of Sampled Microfinance Institution	55.6%	33.3%	11.1%	100.0%
	BGMFI	Count	10	1	0	11
		% within Name of Sampled Microfinance Institution	90.9%	9.1%	0.0%	100.0%
	SFPI	Count	4	2	2	8
		% within Name of Sampled Microfinance Institution	50.0%	25.0%	25.0%	100.0%
	PEACE	Count	10	2	0	12
		% within Name of Sampled Microfinance Institution	83.3%	16.7%	0.0%	100.0%
	AGGAR	Count	1	1	1	3
		% within Name of Sampled Microfinance Institution	33.3%	33.3%	33.3%	100.0%
	MMFI	Count	3	2	4	9
		% within Name of Sampled Microfinance Institution	33.3%	22.2%	44.4%	100.0%
Total	Count	61	28	13	102	
	% within Name of Sampled Microfinance Institution	59.8%	27.5%	12.7%	100.0%	

Source Research Data, SPSS 20, 2015

Table 3.5 is about the extent that clients' supervision influences to the sustainability of the microfinance institutions. And, the response shows that 61(representing 59.8% of the total) believe clients' supervision influence to the sustainability of the institutions to not a severe extent, 28 (representing 27.5% of the respondents) said to a neither extent, while a small proportion of respondents as indicated by 13 (representing 5.6% of the total) said to a severe extent. From the result, it can be concluded that clients' supervision, being one of the most identified sustainability factors in the second objective, had not a severe influence on the sustainability of microfinance institutions in Ethiopia.

Table 3.6 Name of Sampled Microfinance Institution * Extent that Availability of Capital to Lend to Clients Affects the Sustainability of MFI Cross tabulation

			Extent that Availability of Capital to Lend to Clients Affects the Sustainability of MFI		Total
			Not A Sever Problem	Neither	
Name of Sampled Microfinance Institution	OCSSCO	Count	15	8	23
		% within Name of Sampled Microfinance Institution	65.2%	34.8%	100.0%
	AdCSI	Count	15	3	18
		% within Name of Sampled Microfinance Institution	83.3%	16.7%	100.0%
	VF	Count	16	2	18
		% within Name of Sampled Microfinance Institution	88.9%	11.1%	100.0%
	BGMFI	Count	5	6	11
		% within Name of Sampled Microfinance Institution	45.5%	54.5%	100.0%
	SFPI	Count	5	3	8
		% within Name of Sampled Microfinance Institution	62.5%	37.5%	100.0%
	PEACE	Count	3	9	12
		% within Name of Sampled Microfinance Institution	25.0%	75.0%	100.0%
	AGGAR	Count	0	3	3
		% within Name of Sampled Microfinance Institution	0.0%	100.0%	100.0%
	MMFI	Count	4	5	9
		% within Name of Sampled Microfinance Institution	44.4%	55.6%	100.0%
Total	Count	63	39	102	
	% within Name of Sampled Microfinance Institution	61.8%	38.2%	100.0%	

Source Research Data, SPSS 20, 2015

The study also tried to find out the extent that availability of capital influences to the sustainability of the microfinance institutions. As shown from table 3.6, most respondents as indicated by 63(61.8% of the total) reported that the availability of capital to lend influences to the sustainability of the institutions to not a severe extent, 39 (38.2% of the respondents) said to a neither extent, while none of the respondents said to a severe extent. The information thus shows that, though the factor was identified as one of the most sustainability factors in the second objective, had not a severe influence on the sustainability of microfinance institutions in Ethiopia.

Table 3.7 Name of Sampled Microfinance Institution * Extent that Increased Competition Affects the Sustainability of MFI Cross tabulation

			Extent that Increased Competition Affects the Sustainability of MFI			Total
			Not A Sever Problem	Neither	A Sever Problem	
Name of Sampled Microfinance Institution	OCSSCO	Count	14	7	2	23
		% within Name of Sampled Microfinance Institution	60.9%	30.4%	8.7%	100.0%
	AdCSI	Count	14	4	0	18
		% within Name of Sampled Microfinance Institution	77.8%	22.2%	0.0%	100.0%
	VF	Count	8	5	5	18
		% within Name of Sampled Microfinance Institution	44.4%	27.8%	27.8%	100.0%
	BGMFI	Count	5	3	3	11
		% within Name of Sampled Microfinance Institution	45.5%	27.3%	27.3%	100.0%
	SFPI	Count	7	1	0	8
		% within Name of Sampled Microfinance Institution	87.5%	12.5%	0.0%	100.0%
	PEACE	Count	5	5	2	12
		% within Name of Sampled Microfinance Institution	41.7%	41.7%	16.7%	100.0%
	AGGAR	Count	1	2	0	3
		% within Name of Sampled Microfinance Institution	33.3%	66.7%	0.0%	100.0%
	MMFI	Count	4	4	1	9
		% within Name of Sampled Microfinance Institution	44.4%	44.4%	11.1%	100.0%
Total	Count	58	31	13	102	
	% within Name of Sampled Microfinance Institution	56.9%	30.4%	12.7%	100.0%	

Source Research Data, SPSS 20, 2015

It was essential to include increased competition as a factor affecting the sustainability of MFIs. The findings from the second objective revealed that increased competitions one of the factors affecting sustainability in MFIs. Hence, the study furthermore sought to find out the extent that increased competition influences to the sustainability of the microfinance institutions. From the study, most respondents as indicated by 58(56.9% of total) reported that increased competition influences to the sustainability of the institutions to not a very severe, 31(30.4% of the respondents) said to a moderate extent, while a small proportion of respondents as indicated by 13(12.7% of total) said to a severe extent. The result of this indicates that increased competition had not a severe influence on the sustainability of microfinance institutions. And it should be noted that small number of respondents said that increased competition had a severe extent on the sustainability of MFIs provided that the competition is among same institutions functioning in the same geographical areas which is not a healthy competition.

Table 3.8 Name of Sampled Microfinance Institution * Extent that High Cost Affects the Sustainability of MFI Cross tabulation

			Extent that High Cost Affects the Sustainability of MFI			Total
			Not A Sever Problem	Neither	A Sever Problem	
Name of Sampled Microfinance Institution	OCSSCO	Count	11	6	6	23
		% within Name of Sampled Microfinance Institution	47.8%	26.1%	26.1%	100.0%
	AdCSI	Count	9	7	2	18
		% within Name of Sampled Microfinance Institution	50.0%	38.9%	11.1%	100.0%
	VF	Count	7	4	7	18
		% within Name of Sampled Microfinance Institution	38.9%	22.2%	38.9%	100.0%
	BGMFI	Count	3	5	3	11
		% within Name of Sampled Microfinance Institution	27.3%	45.5%	27.3%	100.0%
	SFPI	Count	6	1	1	8
		% within Name of Sampled Microfinance Institution	75.0%	12.5%	12.5%	100.0%
	PEACE	Count	9	3	0	12
		% within Name of Sampled Microfinance Institution	75.0%	25.0%	0.0%	100.0%
	AGGAR	Count	2	0	1	3
		% within Name of Sampled Microfinance Institution	66.7%	0.0%	33.3%	100.0%
	MMFI	Count	1	5	3	9
		% within Name of Sampled Microfinance Institution	11.1%	55.6%	33.3%	100.0%
Total	Count	48	31	23	102	
	% within Name of Sampled Microfinance Institution	47.1%	30.4%	22.5%	100.0%	

Source Research Data, SPSS 20, 2015

Here, the study investigated the level high cost, as identified as one of the sustainability factors, affects the sustainability of the microfinance institutions. Table 3.8 depicts that most respondents as indicated by 88(47.1% of total) reported that high operational cost to the sustainability of the institutions to not a severe problem, 31(representing 30.4% of the total) of the respondents said to a neither extent/moderate extent/, while the remaining proportion of respondents as indicated by 23(22.5% of total) said to a sever extent. The result reveals that respondents rated high operational cost as had not a severe influence on the sustainability of microfinance institutions and the opinions of other respondents fallen towards the average influence of the factor in affecting the sustainability of MFIs in Ethiopia.

Table 3.9 Name of Sampled Microfinance Institution * Extent that Management of Microfinance (Strategic-Skill) Affects the Sustainability of MFI Cross tabulation

			Extent that Management of Microfinance (Strategic-Skill) Affects the Sustainability of MFI	Total
			Not A Sever Problem	
Name of Sampled Microfinance Institution	OCSSCO	Count	23	23
		% within Name of Sampled Microfinance Institution	100.0%	100.0%
	AdCSI	Count	18	18
		% within Name of Sampled Microfinance Institution	100.0%	100.0%
	VF	Count	18	18
		% within Name of Sampled Microfinance Institution	100.0%	100.0%
	BGMFI	Count	11	11
		% within Name of Sampled Microfinance Institution	100.0%	100.0%
	SFPI	Count	8	8
		% within Name of Sampled Microfinance Institution	100.0%	100.0%
	PEACE	Count	12	12
		% within Name of Sampled Microfinance Institution	100.0%	100.0%
	AGGAR	Count	3	3
		% within Name of Sampled Microfinance Institution	100.0%	100.0%
	MMFI	Count	9	9
		% within Name of Sampled Microfinance Institution	100.0%	100.0%
Total	Count	102	102	
	% within Name of Sampled Microfinance Institution	100.0%	100.0%	

Source Research Data, SPSS 20, 2015

Management of microfinance (strategic-skill) was found to be important in the questionnaire and respondents indicated that the factors are one of the problems affects the sustainability of MFIs in Ethiopia. In addition, the study also sought to find out the extent that the management of microfinance (strategic-skill) influences to the sustainability of the microfinance institutions. From the findings as shown in table 3.9, all respondents as indicated by 102(100%) reported that the management of microfinance to the sustainability of the institutions to not a severe extent. This result reveals that even if the factor was identified as a major sustainability problem had not a severe influence on the sustainability of microfinance institutions.

Table 3.10 Name of Sampled Microfinance Institution * Extent that Educational Level of Clients Affects the Sustainability of MFI Cross tabulation

			Extent that Educational Level of Clients Affects the Sustainability of MFI			Total
			Not A Sever Problem	Neither	A Sever Problem	
Name of Sampled Microfinance Institution	OCSSCO	Count	8	8	7	23
		% within Name of Sampled Microfinance Institution	34.8%	34.8%	30.4%	100.0%
	AdCSI	Count	10	4	4	18
		% within Name of Sampled Microfinance Institution	55.6%	22.2%	22.2%	100.0%
	VF	Count	11	6	1	18
		% within Name of Sampled Microfinance Institution	61.1%	33.3%	5.6%	100.0%
	BGMFI	Count	9	2	0	11
		% within Name of Sampled Microfinance Institution	81.8%	18.2%	0.0%	100.0%
	SFPI	Count	3	4	1	8
		% within Name of Sampled Microfinance Institution	37.5%	50.0%	12.5%	100.0%
	PEACE	Count	7	3	2	12
		% within Name of Sampled Microfinance Institution	58.3%	25.0%	16.7%	100.0%
	AGGAR	Count	2	1	0	3
		% within Name of Sampled Microfinance Institution	66.7%	33.3%	0.0%	100.0%
	MMFI	Count	3	2	4	9
		% within Name of Sampled Microfinance Institution	33.3%	22.2%	44.4%	100.0%
Total	Count	53	30	19	102	
	% within Name of Sampled Microfinance Institution	52.0%	29.4%	18.6%	100.0%	

Source Research Data, SPSS 20, 2015

It was essential to include in the questionnaire the educational level of clients as a factor affecting the sustainability of MFIs. Once analyzed, respondents reported the factor as one of the problems affecting the sustainability. The study then after sought to find out the extent that educational level of clients influences to the sustainability of the microfinance institutions. From table 3.10, most respondents as indicated by 53(52.0% of total) reported that the influence of educational level of clients to the sustainability of the institutions to not a very severe, 30(29.4% of the respondents) said to a neither extent, while a small proportion of respondents as indicated by 19(18.6% of total) said to a severe extent. The information indicates that educational level of clients had not a severe influence on the sustainability of microfinance institutions

Table 3.11 Name of Sampled Microfinance Institution * Extent that the Service Quality Affects the Sustainability of MFI Cross tabulation

			Extent that the Service Quality Affects the Sustainability of MFI			Total
			Not A Sever Problem	Neither	A Sever Problem	
Name of Sampled Microfinance Institution	OCSSCO	Count	12	8	3	23
		% within Name of Sampled Microfinance Institution	52.2%	34.8%	13.0%	100.0%
	AdCSI	Count	11	5	2	18
		% within Name of Sampled Microfinance Institution	61.1%	27.8%	11.1%	100.0%
	VF	Count	9	5	4	18
		% within Name of Sampled Microfinance Institution	50.0%	27.8%	22.2%	100.0%
	BGMFI	Count	11	0	0	11
		% within Name of Sampled Microfinance Institution	100.0%	0.0%	0.0%	100.0%
	SFPI	Count	6	0	2	8
		% within Name of Sampled Microfinance Institution	75.0%	0.0%	25.0%	100.0%
	PEACE	Count	10	2	0	12
		% within Name of Sampled Microfinance Institution	83.3%	16.7%	0.0%	100.0%
	AGGAR	Count	3	0	0	3
		% within Name of Sampled Microfinance Institution	100.0%	0.0%	0.0%	100.0%
	MMFI	Count	5	1	3	9
		% within Name of Sampled Microfinance Institution	55.6%	11.1%	33.3%	100.0%
Total	Count	67	21	14	102	
	% within Name of Sampled Microfinance Institution	65.7%	20.6%	13.7%	100.0%	

Source Research Data, SPSS 20, 2015

The study also sought to find out the extent that the service/portfolio/ quality in the operations influence to the sustainability of the microfinance institutions. From the study, most respondents as indicated by 67(65.7% reported that the service quality influence to the sustainability of the institutions to not a severe extent, 21(20.6%) of the respondents said to a neither extent, while a small proportion of respondents as indicated by 14(13.7% of total) said to a severe extent. This result reveals that service quality had not a severe influence on the sustainability of microfinance institutions in Ethiopia.

Table 3.12 Name of Sampled Microfinance Institution * Extent that Skilled Staff (Microfinance-Skills) Affects the Sustainability of MFI Cross tabulation

			Extent that Skilled Staff (Microfinance-Skills) Affects the Sustainability of MFI			Total
			Not A Sever Problem	Neither	A Sever Problem	
Name of Sampled Microfinance Institution	OCSSCO	Count	13	6	4	23
		% within Name of Sampled Microfinance Institution	56.5%	26.1%	17.4%	100.0%
	AdCSI	Count	10	3	5	18
		% within Name of Sampled Microfinance Institution	55.6%	16.7%	27.8%	100.0%
	VF	Count	8	4	6	18
		% within Name of Sampled Microfinance Institution	44.4%	22.2%	33.3%	100.0%
	BGMFI	Count	7	2	2	11
		% within Name of Sampled Microfinance Institution	63.6%	18.2%	18.2%	100.0%
	SFPI	Count	6	0	2	8
		% within Name of Sampled Microfinance Institution	75.0%	0.0%	25.0%	100.0%
	PEACE	Count	10	2	0	12
		% within Name of Sampled Microfinance Institution	83.3%	16.7%	0.0%	100.0%
	AGGAR	Count	0	1	2	3
		% within Name of Sampled Microfinance Institution	0.0%	33.3%	66.7%	100.0%
	MMFI	Count	2	2	5	9
		% within Name of Sampled Microfinance Institution	22.2%	22.2%	55.6%	100.0%
Total	Count	56	20	26	102	
	% within Name of Sampled Microfinance Institution	54.9%	19.6%	25.5%	100.0%	

Source Research Data, SPSS 20, 2015

It was essential to include in the questionnaire the staff skill (or microfinance-skill) as a factor affecting the sustainability of MFIs. Respondents reported the factor as one of the problems affecting the sustainability. The study also tried to find out the extent that staff skill (microfinance-skill) influence to the sustainability of the microfinance institutions. From table 3.11, most respondents as indicated by 56(54.9% of total) reported that the influence of staff skill to the sustainability of the institutions to not a severe problem, 26(25.5% of the respondents) said to a severe extent, while the remaining proportion of respondents as indicated by 20(119.6% of total) said to a neither/moderate/ extent. The result implies that staff skill/microfinance-skill/ had not a severe influence on the sustainability of microfinance institutions.

Table 3.13 Name of Sampled Microfinance Institution * Extent that Client's Retention Affects the Sustainability of MFI Cross tabulation

			Extent that Client's Retention Affects the Sustainability of MFI			Total
			Not A Sever Problem	Neither	A Sever Problem	
Name of Sampled Microfinance Institution	OCSSCO	Count	12	7	4	23
		% within Name of Sampled Microfinance Institution	52.2%	30.4%	17.4%	100.0%
	AdCSI	Count	15	2	1	18
		% within Name of Sampled Microfinance Institution	83.3%	11.1%	5.6%	100.0%
	VF	Count	6	9	3	18
		% within Name of Sampled Microfinance Institution	33.3%	50.0%	16.7%	100.0%
	BGMFI	Count	8	1	2	11
		% within Name of Sampled Microfinance Institution	72.7%	9.1%	18.2%	100.0%
	SFPI	Count	6	2	0	8
		% within Name of Sampled Microfinance Institution	75.0%	25.0%	0.0%	100.0%
	PEACE	Count	6	4	2	12
		% within Name of Sampled Microfinance Institution	50.0%	33.3%	16.7%	100.0%
	AGGAR	Count	0	3	0	3
		% within Name of Sampled Microfinance Institution	0.0%	100.0%	0.0%	100.0%
	MMFI	Count	2	5	2	9
		% within Name of Sampled Microfinance Institution	22.2%	55.6%	22.2%	100.0%
Total	Count	55	33	14	102	
	% within Name of Sampled Microfinance Institution	53.9%	32.4%	13.7%	100.0%	

Source Research Data, SPSS 20, 2015

It was also interesting in the study to find out the extent that clients' retention influence to the sustainability of the microfinance institutions. As it can be seen from table 3.13 above, 55 respondents as indicated by 53.9% reported the clients retention influence to the sustainability of the institutions to not a severe extent, 33 respondents (representing 32.4% of total) of the respondents said to a neither extent, while the remaining 14 respondents as indicated by 13.7% of total said to a severe extent. This information reveals that clients' retention in the institution had not a severe influence on the sustainability of microfinance institutions in Ethiopia. Moreover, respondents were asked in the questionnaire to indicate the severity level of other factors which had been identified as problems affecting the sustainability of MFIs. The factors included inadequate donor (for funded projects only), interest rate changes, lack of information about clients, integration, unregistered lenders, clear ownership, legislation & regulatory framework, market channel, attracting low-income clients, profit performance and staff turnover. Most of the respondents reported the influence of these listed factors on the sustainability of MFIS to not a severe problem. Hence, the researcher believed not to include cross-tabulation for these variables provided that all had the same level of influence on sustainability of MFIs.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary of the Findings

The study found that, as reported by 85.3% of total respondents, educational level of clients is the most marketing factor which affects the sustainability of Microfinance Institutions in Ethiopia followed by the number of customers that Microfinance Institution serves (82.4% of total). According to the analysis, it was also clear that 78.4% of respondents indicated that lack of information about customer, client focus (delivering what clients need) and integration are challenges which equally affect the sustainability of MFIs.

It was also found from the study that most of the respondents, as indicated by 90.2% of total, reported that both the loan payment/default risk/ and inflation are among the operational factors that cause the lack of sustainability and eventual failure of such operational schemes. The analysis also found that high operational cost is another third operational factor, as was reported by 86.3 % of total respondents, which defy the sustainability of Microfinance Institutions in Ethiopia.

Furthermore, the result of the study found that out of the strategic trait of sustainability factors, technology was found to be the foremost, as reported by 94.1% of the total respondents, which influences the sustainability of Microfinance Institutions in Ethiopia followed by clients' supervision counted as 90.2% of the total respondents whereas it was pointed out from the analysis that staff turnover which counted only 9.8% of the total respondents, was the slightest strategic feature affecting the sustainability of Microfinance Institutions in Ethiopia.

The study also established that availability of capital to lend to clients, as indicated by 88.8% of total respondents, was found to be the regulatory feature which typically affects the sustainability of Microfinance Institutions in Ethiopia followed by inadequate donor funding problem which was reported by 81.6% of total respondents.

The study also sought to find out the degree to which the identified problem affects the sustainability of the Microfinance Institutions. Out of the recognized problems, it was clear from the analysis that most of the respondents, as indicated by 48% of the total, reported that technology affects the sustainability institutions to a sever extent. It was also found out from the study that 36.3% of respondents pointed out that inflation affects the sustainability of Microfinance Institutions to a very sever extent followed by high operational cost, skilled staff, educational level of clients and loan payment as indicated by 25.5%, 22.5%, 18.6% and 18.6% of total respondents, respectively.

Conclusions

From the fidings, the researchers concluded that the issues of technology, loan payment (default risk), inflation, and clients' supervision featured as dominantly as the foremost features touching the success and the sustainability of Microfinance Institutions in Ethiopia.

Furthermore, the researchers concluded that availability of capital to lend to clients, increased competition, high operational cost, Management of Microfinance Institution (Strategic-Skill), educational level of clients, the service quality, skilled staff (Microfinance-Skill), clients' retention, number of customers served by the institution, inadequate donor (for funded projects only), and change of interest rate also marked prominently as the main challenges facing the sustainability of Microfinance Institutions in Ethiopia.

It was also further concluded from this study that the issue of technology, inflation, skilled staff, high operational cost, educational level of clients and loan payment/default risk/ influence the sustainability of Microfinance Institutions to a great extent.

Besides, it can be concluded that lack of specific policy and regulatory framework for the Microfinance Sector in Ethiopia was reported by respondents as one of the main challenges facing the Microfinance Institutions. From the researcher's side, it is believed that regulations are necessary because weaknesses in the institutional framework adversely affect the efficiency of the microfinance service providers, because in the absence of the Microfinance Institution regulatory body, it would be difficult to monitor and enact various regulations to ensure efficiency in the Microfinance Sector.

Still the researchers concluded that to some extent it is difficult to achieve the sustainability of Microfinance Institutions in Ethiopia since some of the Microfinance Institutions here in Ethiopia are under the control of government which would push the institutions towards the implementation of government policies rather than their own business policies. And even some MFIs are focused on profit orientation (charging high interest rates) rather than providing the services to their clients who are under poverty line.

Recommendations

Based on the findings and conclusions plus personal observations during the data collection period, the researchers has suggested the following recommendations.

In order to achieve sustainability, the researchers recommended that Microfinance Institutions should try to decrease the uncollectable loans (bad debts), should serve many customers as possible as they can and should benefit from skilled manpower as it also has an impact on sustainability.

The study recommended that Microfinance Institutions should give quality services to their customers, should supervise the economic achievement of their clients and try to disseminate model activities, and should automate their services as well as qualifying their staff academically.

The researchers recommend that Microfinance Institutions to be successful and sustainable, a successful economic development strategy must be crafted which should focus on improving the skills of the staff/workforce/management skills/, reducing the cost of doing their business especially high transaction costs related with increasing outreach as shown from the findings, and making available the capital to lend institution needs to compete and thrive today's global economy.

The study had also found that most institutions' businesses lack the support of technologies. Considering globalization, the researchers recommended that Microfinance Institutions should introduce new technologies and skills to boost their service quality and hit a long-term institutional sustainability. All Microfinance Institutions should go for a new system which is called Core Banking so as to achieve sustainability right after there.

Again, the bottom line is Ethiopian poor but productive people today need more financial resources for their development endeavor but unfortunately huge amount of financial resource slip or squeeze out of its figure due to mismanagement of resources and carelessness or political affiliations. The researchers therefore would recommend that this trend begs for a remedial solution so as to realize sustainability in Microfinance Institutions Sectors.

The researchers also highly recommended that the needs of Ethiopia with large youth populations should be considered in the context of Microfinance Institutions' sustainable development objectives and partnership with governments, private sectors and other stakeholders are needed to make the necessary funds available and empower women and youths.

Last but not least, every Microfinance Institution should be aware of their mission, what they intend to achieve, what is the reason behind their foundation, how should they achieve what they claim in their mission and also should be free from external donation and be self-sufficient to finance themselves. This is because no Microfinance Institution can survive by disregarding their social contribution. Thus, as the researchers' opinion, all Microfinance Institutions should be socially responsible and demonstrate this responsibility in their daily routine activities; for instance, protecting the client's right, avoiding corruption, respecting the poor, providing quick and responsive services are some of the social responsibilities of every Microfinance Institution.

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