EVALUATION OF FINANCIAL AND OPERATIONAL PERFORMANCE

(A Case Study of Dedebit Credit and Saving Institution)

A Research Project submitted to Department of Accounting & Finance, College of Business and Economics, Mekelle University, for the partial Fulfillment of the Degree of Master of Science in Finance & Investment

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EVALUATION OF FINANCIAL AND OPERATIONAL PERFORMANCE:

A Case Study of Dedebit Credit and Saving Institution (DECSI)

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DECLARATION

I, Kassahun Tafese, hereby declare that this study entitled "Evaluation of Financial and Operational Performance: A Case Study of Dedebit Credit and Saving Institution (DECSI) - Mekelle Branch No 1, in Tigray, Ethiopia" is my own genuine effort and study. I have carried out the study independently with the guidance and support of the advisor. This study has not been submitted for award of any degree, diploma or fellowship program in this or other similar titles and Universities or institutions. It is offered here in partial fulfillment for the requirement for the degree of Master of Science (MSc) in Finance and Investment of Mekelle University.

Place: Mekelle Signature: _____

Date: June, 2010 KASSAHUN TAFESE

CERTIFICATION

This is to certify that the project work entitled "Evaluation of Financial and Operational Performance: A Case Study of DECSI - Mekelle Branch No 1, in Tigray, Ethiopia" is a bona-fide work by Kassahun Tafese who carried out the research under my guidance. Certified further, that to the best of my knowledge the work reported herein doesn't form part of any other project report or dissertation on the bases of which a degree or award was conferred on an earlier occasion on this or any other candidate.

Place: **Mekelle** Signature: _____

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ABSTRACT

The overall objectives of all MFIs in the world would be mobilizing the vast majority of the poor people in order to participating in the economic activity with little support from the institutions and making profit for their continued existence. To attain these objectives the institutions should work towards institutional Profitability and sustainability; because these factors are the most comprehensive and reflect the ability of the MFI to continue operating in the future. This is possible only if the institutions are measure their financial as well as operational performance using measurement indicators which are developed by different scholars.

The objectives of DECSI in brief are food security, creation of job opportunity and stimulating the local economy. To achieve these objectives, the institution has been striving for financial viability and sustainability. To acknowledge its right position, the performance of the institution should be measured every time. As a result, this research project describes financial and operational performance of DECSI- Mekelle branch No 1; with the main objective of "evaluating financial and operational performance" of the branch as a case study. The researcher focuses mainly on the outreach, portfolio quality, profitability, productivity, efficiency, financial management, and financial sustainability of the branch's performance.

Data for the study was from primary source through unstructured personal interview with different management bodies of the institution and secondary sources of financial statement and operational data were analyzed via different techniques and performance indicators. In order to see the trend in performance, five years data (2005 to 2009) were used and revealed using tables, figures, and ratios.

The major findings of the study indicate that, the performance of the branch have declined in terms of outreach, efficiency, productivity, profitability and financial sustainability in last year (2009). However; the overall performance of the branch is encouraging. It attains operational self sufficiency beyond threshold, ROE and ROA are attractive and an average portfolio at risk is too low (only 0.75% for days 91 to 180). In addition; the branch has good potential in terms of clients since it is located in the city.

	TABLE OF CONTENTS	
		PAGES

	LIST OF TABLES	
TABLE No	**DESCRIPTION**	**PAGES**
Table 2.1	Formula for PAR	23
Table 2.2	Productivity and Efficiency Ratios Calculation	24
Table 2. 3	Financial Management Ratios Calculation	26
Table 2.4	Sustainability and Profitability Ratios Calculation	29
Table 4.5	Active Clients Served by the Branch	44
Table 4.6	Trends of Portfolio at Risk Ratio	50
Table 4.7	Trends of the Efficiency and Productivity Measurements	52
Table 4.8	Financial Management Ratios	57
Table 4.9	Profitability and Financial Sustainability Ratios	63

	LIST OF FIGURES	
FIGURE No	**DESCRIPTION**	**PAGES**
Figure 1	Trend of Total Active Client	45
Figure 2	Trends of Gender and Client Growth	46
Figure 3	Average portfolio at Risk	47
Figure 4	Operating Expense Ratio	53
Figure 5	Trends of Borrowers per Loan Officer and Active Clients per Staff Member	54
Figure 6	Average Outstanding Loan Size and Average Loan Disbursement	56
Figure 7	Yield on Portfolio and Cost of Fund	59
Figure 8	Portfolio to Asset and Debt to Equity	61
Figure 9	Current Ratio	62
Figure 10	Operational Self Sufficiency	64
Figure 11	Return on Asset and Return on Equity	66

ACRONYMS

ACSI	Amhara Credit and Saving Institution
AEMFI	Association of Ethiopian Microfinance Institutions
CGAP	Cumulative Group to Assist the Poorest
DECSI	Dedebit Credit and Saving Institution
FSS	Financial Self- Sufficiency
GLP	Gross Loan Portfolio
MENA	Middle East and North Africa
MFIs	Microfinance Institutions
NGO	Nongovernmental Organizations
OSS	Operational Self- Sufficiency
PAR	Portfolio at Risk
CST	Credit Scheme of Tigray
REST	Relief Society of Tigray
ROA	Return on Assets
ROE	Return on Equity
ROSCAs	Rotating Savings and Credit Associations
SFPI	Specialized Financial and Promotional Institution

CHAPTER I
INTRODUCTION

1.1 Back Ground of the Study

The emergence of the global micro finance has a history of about three decades, yet has gone through stages of historical development. The micro finance industry is said to be in revolution: the service that was initiated in small scale and small village of South East Asia "Chintanga", Bangladesh now turned to be international agenda (Arega, 2007).

The microfinance sector in Africa is quickly expanding, and institutions have increased their activities. In fact, African Micro Finance Institutions (MFIs) are among the most productive globally, as measured by the number of borrowers and savers per staff member. They also demonstrate higher levels of portfolio quality, with an average portfolio at risk over 30 days of only 4.0 percent. Still, they face many challenges. Operating and financial expenses are high, and on average, revenues remain lower than in other global regions. Technological innovations, product refinements, and ongoing efforts to strengthen the capacity of African MFIs are needed to reduce costs, increase outreach, and boost overall profitability.

Overall, African MFIs are important actors in the financial sector, and they are well positioned to grow and reach the millions of potential clients who currently do not have access to mainstream financial services (Anne-Lucie et al, 2005).

When we came to Ethiopian financial sector, until the initiation of financial sector reforms in 1993, state-owned banks were the only authorized providers of financial services in country, although a few small informal private financial institutions existed. Responding to unsatisfied gap in financial services for micro and small-scale enterprises, formal MFIs began emerge.

Institutionalization of microfinance is evolved after the Ethiopian government issued the proclamation No.40/1996. Because, NGOs, government agencies, and cooperatives and others perform micro credit delivery and savings mobilization in the country, in a scattered and inconsistent way, the government took the initiative to establish the regulatory framework in order to facilitate the sound development of the microfinance industry (Arega, 2007). This resulted in institutionalization of 29 MFIs (AEMFI, 2009) which are currently operating in the economy.

The Ethiopia's 1996 law on Licensing and Supervision of Micro-Financing Institutions evidently shifted the basis of microfinance from humanitarian-oriented projects to a more commercial orientation as incorporated financial intermediaries. Despite the limited format permitted by the regulatory framework, Ethiopia has a relatively large number of licensed MFIs, with strong rural penetration and high operational efficiency, some reaching significant scale. Nevertheless, the system has some weaknesses in terms of supervision, compliance with regulatory norms, governance, and lack of flexibility. Prior to 1996, microfinance in Ethiopia (apart from traditional informal mechanisms) consisted primarily of projects by some 30 NGOs with mainly humanitarian objectives and was not based on sound, sustainable financial principles. Default rates were high, with little attempt at savings mobilization (William et al, 2003).

Although Ethiopia was a leader in Africa in moving to treat MFIs as financial intermediaries, it has only gradually moved toward promoting financial self-sufficiency. The interest rate was initially fixed at 2% above the maximum rate for commercial banks. Although the ceiling was removed in 1998, most MFIs were slow to go above the previously mandated rate of 12.5%, reflecting both the influence of the regional governments and the view that the poor cannot afford higher rates. With a floor of 6% on savings, they found it difficult to cover the relatively high costs involved and had to depend on subsidies and concessional funding. By 2002, however, most MFIs were charging 18-24% (flat rate) and achieving high levels of operational self-sufficiency. While Ethiopian MFIs had kept costs low by international standards, that had come in

part through complementary efforts of government agencies, especially to support the regional MFIs and implementation of the government's agricultural input credit scheme. All MFIs were depending to some extent on a combination of government support and donor funding, although a few had been moving toward full financial sustainability (William et al, 2003).

It is obvious that performance of any institution shall be measured from the objectives of the organization angle. Microfinance's goal is to eradicate poverty. In the early days when MFIs started they were financed by donor funds that have a poverty eradication goal. Hence, the performance of the MFI was measured on how much MFI reach to the poor (outreach) and impact (how far the live of those who get financial services are changing as compared to those who don't get these services). But as the MF industry grows in size, the need for increased financing coupled with unpredictability of donor funds trigger the issue of building a sustainable MFIs that stand on their own leg. That means MFIs shall start covering their own cost of operation from their program revenues. Sustainability is loosely defined as the ability of a MFI to cover its operating and other costs from generated revenue and provide for profit. It is an indicator which shows how the MFI can run independent (free) of subsidies. Today many key performance indicators used to measure the performance of the microfinance institution. Some of these are portfolio quality, efficiency and productivity, financial management and profitability play insignificant role to evaluate the performance of the MFIs (Letenah, 2009).

The absence of financial institutions which can provide financial services to the poor was one of the obstacles that hindered the undertaking of rehabilitation and development activities after downfall of socialist administration of Ethiopia. As a response, Dedebit Credit and Saving Institution /DECSI/ was established in 1994 as one development wing of the Relief Society of Tigray (REST) to provide financial services to the poor households. After 3 years of its operation, DECSI was reregistered in the form of a Share holding Company as a legal entity in 1997 following the proclamation of the

National Bank of Ethiopia. With such commitment, DECSI has been working widely in rural and urban Tigray for the last 16 years.

Currently DECSI has providing financial services through 139 offices, 8 main branch offices and 15 micro finance collateral based branches. Up to now Birr 4 billion loans have provided, over 407,780 active loan clients and have around 2000 staff employees. Mekelle branch No 1 is one of the 15 branches which located in Mekelle city (DECSI, 2009).

The main aim of this study is to analyze the financial and operational performance of this branch of the DECSI as a case study. The main performance measurement indicators are incorporated to measure the performance of the branch.

1.2 Statement of the Problem

The overall objectives of all MFIs in the world would be;

(1) Mobilizing the vast majority of the poor people in order to participating in the economic activity with little support from the institutions and

(2) Making profit for their continued existence.

To attain these objectives, the institutions should work towards institutional Profitability and sustainability; because these parameters are the most comprehensive and reflect the ability of the MFI to continue operating in the future. This is possible only if the institutions are measure their financial as well as operational performance using measurement indicators which are developed by different scholars.

The objectives of DECSI in brief are food security, creation of job opportunity and stimulating the local economy. To achieve these objectives the institution should be financially viable and sustainable. Judging success and progress based on size of amounts dispersed, repayment levels and numbers of clients in a scheme may

sometimes lead to wrong conclusion. Moreover; international best practice in microfinance around the world suggests, good financial analysis is the basis for successful and sustainable microfinance operations. Some would even say that without financial analysis MFI will never achieve sustainability.

The success of an enterprise to a great extent depends upon its financial and operating performance. A careful and well-planned financial management is needed for raising resources and utilizing them effectively. The financial performance of an enterprise greatly influences its operational results and business efficiency. Besides, healthy financial and operating performance of microfinance institutions is obviously very important for a well functioning financial system in developing countries. Therefore, it is highly significant to evaluate the financial performance of DECSI in relation to efficiency in mobilizing the required credit and savings, and effectiveness in utilization of these resources. For this purpose DECSI - Mekelle Branch No 1, in Tigray, is selected.

Hence, the present study entitled "Evaluation of Financial and Operational Performance: A Case Study of DECSI - Mekelle Branch No 1, in Tigray, is intended to make a detail examination of the financial and operating performance of this selected Branch.

1.3 Research Questions

The research questions focus on the following points:-

1. How the outreach level of the branch?
2. How does the quality of the portfolio?
3. Does the branch operate efficiently?
4. How is asset/liability management of the branch?
5. Does the profit earned make the branch self sufficient to cover it operational costs?
6. Does the institution make necessary adjustments to the subsidies, inflation and portfolio at risk?

1.4 Objectives of the Study

1.4.1 Main Objective

The main objective of this study is to analyze the financial and operational performance of DECSI by taking Mekelle branch No 1 as a case study.

1.4.2 Specific Objective

The specific objectives of the study are focuses on the following points:-

1. To assess the outreach level of the branch
2. To examine the quality of portfolio of the branch
3. To evaluate asset/liability management of the branch
4. To assess how well the branch is operating
5. To find out whether the branch cover its operational cost with its earned profits or not
6. To assess whether the institution make necessary adjustments to the subsidies, inflation and portfolio at risk or not

1.5 Justification of the study

The importance of microfinance institutions to one country is multidimensional; at glance, poverty eradication, healthy financial circulation, and contribution of economic growth of the country. Therefore, the success of micro-financing operations has a paramount importance in the development endeavor of the country. The rationale of the study is aimed at shading some light as a contribution to address the problem, to waken up further researchers in these institutions and suggest possible recommendations. Furthermore, the findings of this research will be disseminated to officials in of the institution to take whatever benefits of the study.

1.6 Significance of the Study

In spite of the fact that DECSI Mekelle branch No 1 has been undertaking its financial and operational performance based on its own procedures and time, this study may indicate the gap that the institution might not have been considered yet. Therefore, the study adds value to the institution's managers, policy makers and workers so that they can evaluate their performance once again. The study may also indicate the direction for latter research work in the area as well.

1.7 Scope of the Study

The outcomes of the research are more pleasing if it was be able to cover more branches of the institution. However; due to the shortage of time to study and the scattered nature of the locations of the branches in the region, the scope of the study limited to the Mekelle branch No 1 which is located in Mekelle city. Moreover; the study was also delimited to the assessment of financial and operational performance of the branch for the last five years starting from 2005 up to 2009.

1.8 Research Methodology

1.8.1 Sampling Technique

This is analytical research based on a case study approach. Because of scarcity of resources at disposal and time limit given to the study; and more important the locations where the branches exist are so scattered; using convenience sampling technique one branch was chosen by the researcher to make thorough investigation believing that it will throw a highlight as to the performance of the other branches of DECSI . For this end, a recent five-year data were gathered to best describe the performance.

1.8.2 Types of Data Collection

This study has conducted based on secondary as well as primary data. The secondary data were gathered mainly from financial statements (balance sheet and income statement) and operational report of the branch. Other sources of data were gathered from DECSI main office, bulletins, government regulations, bank reports and internet. The primary data were collected using unstructured interview with the branch officials and the employees who have relevant task with the study area.

1.8.3 Methods of Data Collection

Data were collected using primary data gathering instruments – questionnaire and personal interview. Interviews were conducted to the higher officials and the employees of the institution who have direct relation with the study area.

1.8.4 Methods of Data Analysis and Interpretation

The data are scrutinized to facilitate and to make clear for analysis. The data are analyzed using different statistical tools. The raw data are analyzed, summarized and presented in tables, graphs and charts. Then interpreted to give solutions for the research problem by using ratios; because, ratio analysis is a financial management tool that enables managers of microfinance institutions to assess their progress in achievement. Moreover, trends of the ratios used to measure the performance of each year; because, it is important to show the trends of several accounting periods to determine changes in performance.

The data that were collected are both qualitative and quantitative in nature and the researcher used descriptive method of data analysis.

1.9 Limitations of the Study

Even if, the primary data fill the gap where the secondary data were unavailable, some data still unavailable; so that certain measurement parameters excluded from the study.

1.10 Structure of the Study

The organization of this study makes five chapters. The first chapter is the introduction part which encompasses the background of the study, the statement of the research problem, the research question of the study, the objective of the study, the significance of the study, the scope of the study, the design and methodology and the research limitation. The second chapter presents the related review of literature. The third chapter describes about the study area. The fourth chapter is data analysis and discussion. The fifth chapter provides conclusion and recommendation.

CHAPTER II
LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Definition of Microfinance Institution (MFI)

A MFI is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable than traditional bank clients.

During the 1970s and 1980s, the microenterprise movement led to the emergence of nongovernmental organizations (NGOs) that provided small loans for the poor. In the 1990s, a number of these institutions transformed themselves into formal financial institutions in order to access and on-lend client savings, thus enhancing their outreach.

Specialized microfinance institutions have proven that the poor are “bankable”. Today, formal institutions are rapidly absorbing the lessons learned about how to do small-transaction banking. Many of the newer players in microfinance, such as commercial banks, have large existing branch networks, vast distribution outlets like automatic teller machines, and the ability to make significant investments in technology that could bring financial services closer to poor clients. Increasingly, links among different types of services providers are emerging to offer considerable scope for extending access (CGAP, 2010).

2.1.2 The History of Microfinance

The concept of microfinance is not new. Savings and credit groups that have operated for centuries include the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico,

"arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world.

Formal credit and savings institutions for the poor have also been around for decades, providing customers who were traditionally neglected by commercial banks, a way to obtain financial services through cooperatives and development finance institutions. One of the earlier and longer-lived micro credit organizations providing small loans to rural poor with no collateral was the Irish Loan Fund system, initiated in the early 1700s by the author and nationalist Jonathan Swift. Swift's idea began slowly but by the 1840s had become a widespread institution of about 300 funds all over Ireland. Their principal purpose was making small loans with interest for short periods. At their peak they were making loans to 20% of all Irish households annually.

In the 1800s, various types of larger and more formal savings and credit institutions began to emerge in Europe, organized primarily among the rural and urban poor. These institutions were known as People's Banks, Credit Unions, and Savings and Credit Co-operatives. The concept of the credit union was developed by Friedrich Wilhelm Raiffeisen and his supporters. Their altruistic action was motivated by concern to assist the rural population to break out of their dependence on moneylenders and to improve their welfare. From 1870, the unions expanded rapidly over a large sector of the Rhine Province and other regions of the German States. The cooperative movement quickly spread to other countries in Europe and North America, and eventually, supported by the cooperative movements in developed countries and donors, also to developing countries.

In Indonesia, the Indonesian People's Credit Banks (BPR) or The Bank Perkreditan Rakyat opened in 1895. The BPR became the largest microfinance system in Indonesia with close to 9,000 units.

In the early 1900s, various adaptations of these models began to appear in parts of rural Latin America. While the goal of such rural finance interventions was usually defined in

terms of modernizing the agricultural sector, they usually had two specific objectives: increased commercialization of the rural sector, by mobilizing "idle" savings and increasing investment through credit, and reducing oppressive feudal relations that were enforced through indebtedness. In most cases, these new banks for the poor were not owned by the poor themselves, as they had been in Europe, but by government agencies or private banks. Over the years, these institutions became inefficient and at times, abusive.

Between the 1950s and 1970s, governments and donors focused on providing agricultural credit to small and marginal farmers, in hopes of raising productivity and incomes. These efforts to expand access to agricultural credit emphasized supply-led government interventions in the form of targeted credit through state-owned development finance institutions, or farmers' cooperatives in some cases, that received concessional loans and on-lent to customers at below-market interest rates. These subsidized schemes were rarely successful. Rural development banks suffered massive erosion of their capital base due to subsidized lending rates and poor repayment discipline and the funds did not always reach the poor, often ending up concentrated in the hands of better-off farmers.

Meanwhile, starting in the 1970s, experimental programs in Bangladesh, Brazil, and a few other countries extended tiny loans to groups of poor women to invest in micro-businesses. This type of microenterprise credit was based on solidarity group lending in which every member of a group guaranteed the repayment of all members. These "microenterprise lending" programs had an almost exclusive focus on credit for income generating activities (in some cases accompanied by forced savings schemes) targeting very poor (often women) borrowers (Mercy Corps, 2006).

In general, the history of the modern microfinance institution can be traced back to Bangladesh and the launch of Grameen Bank by Professor Muhammad Yunus in the late 1970s. Through Grameen Bank, Yunus was able to provide access to very small amounts

of capital with no collateral requirements. Grameen provided this capital at a very low interest rate, which was almost unheard of when lending to the poor (Jonathan, 2010).

2.1.3 Characteristics of MFIs

The term "microfinance institutions" is generally used to refer to those financial institutions that are characterized by their commitment to assisting typically poor households and small enterprises in gaining access to financial service. This commitment may replace or supplement other private or public objectives, such as the maximization of shareholder value, the direction of investment into priority sectors, or the mobilization of savings to finance government operations. In common usage, MFIs are distinguished from purely commercial, small-scale, possibly informal financial institutions dealing with the poor (for example, village moneylenders, pawnshops, and informal transfer systems) and from large, perhaps government-sponsored schemes that may hold numerous small accounts more or less as a byproduct of their main business (for example, national savings schemes or post office savings banks) (Daniel, 2002).

Formal providers are sometimes defined as those that are subject not only to general laws but also to specific banking regulation and supervision (development banks, savings and postal banks, commercial banks, and non-bank financial intermediaries). Formal providers may also be any registered legal organizations offering any kind of financial services. Semiformal providers are registered entities subject to general and commercial laws but are not usually under bank regulation and supervision (financial NGOs, credit unions and cooperatives). Informal providers are non-registered groups such as Rotating Savings and Credit Associations (ROSCAs) and self-help groups.

Ownership structures: MFIs can be government-owned, like the rural credit cooperatives in China; member-owned, like the credit unions in West Africa; socially minded shareholders, like many transformed NGOs in Latin America; and profit-maximizing shareholders, like the microfinance banks in Eastern Europe. The types of services offered are limited by what is allowed by the legal structure of the provider:

non-regulated institutions are not generally allowed to provide savings or insurance (CGAP, 2010).

2.1.4 Key Principles of Microfinance

1. **The poor need a variety of financial services, not just loans: -** Just like everyone else, poor people need a wide range of financial services that are convenient, flexible, and reasonably priced. Depending on their circumstances, poor people need not only credit, but also savings, cash transfers, and insurance.

2. **Microfinance is a powerful instrument against poverty: -** Access to sustainable financial services enables the poor to increase incomes, build assets, and reduce their vulnerability to external shocks. Microfinance allows poor households to move from everyday survival to planning for the future, investing in better nutrition, improved living conditions, and children's health and education.

3. **Microfinance means building financial systems that serve the poor: -** Poor people constitute the vast majority of the population in most developing countries. Yet, an overwhelming number of the poor continue to lack access to basic financial services. In many countries, microfinance continues to be seen as a marginal sector and primarily a development concern for donors, governments, and socially-responsible investors. In order to achieve its full potential of reaching a large number of the poor, microfinance should become an integral part of the financial sector.

4. **Financial sustainability is necessary to reach significant numbers of poor people: -** Most poor people are not able to access financial services because of the lack of strong retail financial intermediaries. Building financially sustainable institutions is not an end in itself. It is the only way to reach significant scale and impact far beyond what donor agencies can fund. Sustainability is the ability of a microfinance provider to cover all of its costs. It allows the continued operation of the microfinance provider and the ongoing provision of financial services to the poor. Achieving

financial sustainability means reducing transaction costs, offering better products and services that meet client needs, and finding new ways to reach the unbanked poor.

5. **Microfinance is about building permanent local financial institutions: -** Building financial systems for the poor means building sound domestic financial intermediaries that can provide financial services to poor people on a permanent basis; such institutions should be able to mobilize and recycle domestic savings, extend credit, and provide a range of services. Dependence on funding from donors and governments—including government-financed development banks—will gradually diminish as local financial institutions and private capital markets mature.

6. **Microcredit is not always the answer: -** Microcredit is not appropriate for every one or every situation. The destitute and hungry that have no income or means of repayment need other forms of support before they can make use of loans. In many cases, small grants, infrastructure improvements, employment and training programs, and other non-financial services may be more appropriate tools for poverty alleviation. Wherever possible, such non-financial services should be coupled with building savings.

7. **Interest rate ceilings can damage poor people's access to financial services: -** It costs much more to make many small loans than a few large loans. Unless micro-lenders can charge interest rates that are well above average bank loan rates, they cannot cover their costs, and their growth and sustainability will be limited by the scarce and uncertain supply of subsidized funding. When governments regulate interest rates, they usually set them at levels too low to permit sustainable microcredit. At the same time, micro-lenders should not pass on operational inefficiencies to clients in the form of prices (interest rates and other fees) that are far higher than they need to be.

8. **The government's role is as an enabler, not as a direct provider of financial services: -** National governments play an important role in setting a supportive policy environment that stimulates the development of financial services while protecting poor people's savings. The key things that a government can do for microfinance are to maintain macroeconomic stability, avoid interest-rate caps, and refrain from distorting the market with unsustainable subsidized, high delinquency loan programs. Governments can also support financial services for the poor by improving the business environment for entrepreneurs, clamping down on corruption, and improving access to markets and infrastructure. In special situations, government funding for sound and independent microfinance institutions may be warranted when other funds are lacking.

9. **Donor subsidies should complement, not compete with private sector capital: -** Donors should use appropriate grant, loan, and equity instruments on a temporary basis to build the institutional capacity of financial providers, develop supporting infrastructure (like rating agencies, credit bureaus, audit capacity, etc.), and support experimental services and products. In some cases, longer-term donor subsidies may be required to reach sparsely populated and otherwise difficult-to-reach populations. To be effective, donor funding must seek to integrate financial services for the poor into local financial markets; apply specialist expertise to the design and implementation of projects; require that financial institutions and other partners meet minimum performance standards as a condition for continued support; and plan for exit from the outset.

10. **The lack of institutional and human capacity is the key constraint: -** Microfinance is a specialized field that combines banking with social goals, and capacity needs to be built at all levels, from financial institutions through the regulatory and supervisory bodies and information systems, to government development entities and donor agencies. Most investments in the sector, both public and private, should focus on this capacity building.

11. **The importance of financial and outreach transparency: -** Accurate, standardized, and comparable information on the financial and social performance of financial institutions providing services to the poor is imperative. Bank supervisors and regulators, donors, investors, and more importantly, the poor who are clients of microfinance need this information to adequately assess risk and returns (CGAP, 2010).

2.1.5 The Role and Contribution of Microfinance

Microfinance services include micro credit, savings, money transfer, and insurance products. Over the past 20 years, microfinance has developed into a specialized method of providing these financial services at sustainable rates to the economically active poor households, who cannot access the commercial banks of the formal sector, be it for socio-cultural, systemic, geographical, or other reasons.

Target clients of the microfinance industry use and benefit from small savings and loans to grow rather than establish their micro-businesses. The key motivator for microfinance clients is access to (rather than price of) reliable and continuous financial services. The chief motivation for repaying a loan is the promise of future access to another loan and this is often re-enforced with social collateral such as group guarantees. This explains why microfinance can operate successfully in the informal sector without physical collateral, enforceable contracts, and commercial courts or enabling legislature. The laws of microfinance are embedded in good operating practices and re-enforced by social contracts.

Microfinance is not simply banking for the poor; it is a development approach with a social mission and a private sector-based financial bottom line that uses tested and continually adjusted sets of principles, practices and technologies. The key to successful microfinance lies in the ability of the provider to cost-effectively reach a critical mass of clients with systems of delivery, market responsiveness, risk management and control that can generate a profit to the institution. Typically, this profit is ploughed back to ensure the long-term survival of the institution, i.e. the continuous provision of services

demanded by its clients. The two long-term goals of microfinance are thus substantial outreach and sustainability.

Financial services, especially credit, are being delivered around the world without sufficient knowledge of or attention to these good practices – but the short-term losses, and the longer-term unsustainable impact of such schemes ultimately harm the very clients that they were meant to benefit. The experience from past failures proves that direct provision of services by subsidized and non-profit bodies tends to result in limited outreach and unsustainable impact. This fact is, however, sometimes overlooked in the quest to combat poverty by availing cash to the poor through any available channel. Because money is a commodity well-known and managed by almost everyone, the technical skill and specialization necessary to provide this business service successfully is often not adequately recognized.

Microfinance can be an effective and powerful instrument for poverty reduction, helping poor people to increase incomes, build assets, and reduce their vulnerability in times of economic stress. But it must be provided by institutions who strive to become effective business entities by developing a strategic vision for viability and the necessary professional skill and capacity. Often, promising microfinance institutions need support to address constraints during their first 2-5 years in order to secure their ability to provide market-responsive services in a viable manner (Lene, 2010).

2.1.6 School of Thought of MFIs

2.1.6.1 The Welfarists

The Welfarists are arguing that MFIs can achieve sustainability without achieving financial sustainability. They contend that donations serve as a form of equity and as such donors can be viewed as social investors. Unlike private investors who purchase equity in publicly traded firm, social investors don't expect to earn monetary returns. Instead these donor investors realize a social (intrinsic) return (Meyer, 2002).

Welfarists tend to emphasize poverty alleviation, place relatively greater weight on depth of outreach relative to breadth of outreach and gauge institutional success according to social metrics. This is not to say that neither breadth of outreach nor financial metrics matter. Welfarists feel these issues are important, but they are less willing than Institutionist to sacrifice depth of outreach to achieve them.

2.1.6.2 The Institutionists

The Institutionists are arguing that unless we build sustainable MFI that are capable of running independent of subsidies the promise of MFI of eradicating world poverty will not be met. They argue that sustainable MFI helps to expand outreach and reach more poor people.

Hence even if the two schools of thought seem contradictory, they are actually not. Their goal is eradicating poverty. Their difference lies on how to go about it. Welfarists say we have to target the very poor and profitability shall be secondary. They prefer to charge subsidized and low interest rates by relying on donor funds. Institutionist argues donor funds are unreliable and MFI must by themselves generate enough revenues to reach more poor people in the future. They favor marginally poor customer. They charge higher interest rates and focus on efficiency of MFIs to generate profit and reach more poor. The debate between the two schools of thought is endless and today many players in the MF industry use both the welfarists and instututionist perspective to assess the performance of MFIs (Basu, 2004).

2.1.7 Performance Measurement in MFIs

For many years the MFI industry was operating with subsidy from donors and governments but there is now a pressure on these organizations to be financial sustainable. However, it seems that serving the poor and being financially self sufficient seems contradictory. Various arguments are forwarded: the poor can't pay high interest rate, if the poor consume it has no collateral, there is big transaction cost in serving the

poor. But these assumptions are falsified in the last 20 years and the poor is seen as capable of paying high interest as Return On Investment of small projects are larger than large projects, the poor don't consume the money rather use it for financing his/her business, transaction cost barriers are mitigated by the creation of group lending, absence of physical collateral is mitigated by social capital. Hence contrary to the expectations the MFI industry has shown significant repayment rate although high repayment rates can't be translated into financial sustainability (Letenah, 2009).

2.1.8 Performance Measurement Indicators

The indicators presented to measure the performance of the MFIs fall into one of five main categories: Outreach, portfolio quality, efficiency and productivity, financial management and financial Sustainability and profitability. Of course, there are other aspects that throw light on the performance of microfinance institutions and, even within the five categories listed here; there are many different performance measures.

2.1.8.1 Outreach (Coverage and Depth)

The indicators for the outreach of the organization give information on the coverage (size of operations in terms of clients) and on the depth or poverty orientation (to which extent the institution serves poor households and which economic sectors it reaches).

The information on outreach is crucial to understand and interpret the indicators that follow, in sections 2.1.8.2 to 2.1.8.6. Any changes in the coverage or depth of the financial services will affect all performance indicators and have thus to be kept in mind when analyzing the data and ratios (Berne, 2005).

Growth and outreach are important indicators to monitor, not only as "social" objectives, but also as financial indicators: new clients provide a basis for revenue and asset growth. It is fair to say that most MFIs do want to grow. Growth can be calculated for anything by using the following formula: percentage growth = (final amount – initial

amount) / initial amount. Outreach is sometimes defined as sheer number of clients reached, and sometimes it becomes more specific to include what segment of clients is served. Common outreach categories include gender, age, poverty indices, geographic location, or type of micro entrepreneurial activity. Because outreach is so closely linked to the MFI's social goals.

The key areas of growth are:

- **Loan portfolio growth** is the engine of revenue growth. An MFI may experience seasonal fluctuation of its loan portfolio so that it may shrink from one quarter to the next. An MFI should exhibit long-term growth of its loan portfolio.

- **Growth in borrowers** is a good indicator of future revenues. As the number of experienced clients increase, the loan portfolio and revenues will increase. Net growth equals new clients minus clients who have left the program. Client withdrawal is critical in assessing client satisfaction and greatly influences efficiency and productivity.

- **Growth in equity** is the foundation for future asset growth. This indicator reveals how efficiently the MFI transfers revenues to equity, thereby enabling the institution to grow.

- **Depth of portfolio** evaluates how well the MFI is penetrating the market of very low-income clients. This ratio serves as a proxy for client income by comparing the average outstanding loan size with gross domestic product per capita. The smaller the ratio, the poorer the client is assumed to be. While this says little about financial performance, it may be relevant to the MFI's mission or other stated goals **(**Nancy, 2003**).**

2.1.8.2 Portfolio Quality

Portfolio quality is a crucial area of analysis, since the largest source of risk for any financial institution resides in its loan portfolio. The loan portfolio is by far an MFI's largest asset and, in addition, the quality of that asset and therefore, the risk it poses for the institution can be quite difficult to measure. For microfinance institutions, whose loans are typically not backed by bankable collateral, the quality of the portfolio is absolutely crucial. Fortunately, many microfinance institutions have learned how to maintain loan portfolios of very high quality. In fact, leading microfinance institutions typically better at maintaining a higher portfolio quality than their commercial bank peers in many countries (MicroRate et al, 2003).

Portfolio at Risk (PAR)

PAR and the Write-off Ratio are the preferred ratios for analyzing portfolio quality. PAR is the value of all loans outstanding that have one or more installments of principal past due more than a certain number of days. This item includes the entire unpaid principal balance, including both the past due and future installments, but not accrued interest. It also does not include loans that have been restructured or rescheduled. PAR is usually divided into categories according to the amount of time passed since the first missed principal installment.

Value of payments in arrears – the sum of all principal payments that are past due. It does not include past-due interest. This item is also referred to as total arrears and should not be confused with portfolio at risk.

PAR is the most accepted measure of portfolio quality. The most common international measurements of PAR are > 30 days and > 90 days. But can vary with terms of loan.

Table 2.1: Formula for PAR and Arrears ratio

PAR= (Unpaid Principal Balance of all loans with payments > 30 Days past due + Value of Renegotiated Loans)/Gross Loan Portfolio.
Arrears rate=Amount in arrears/Portfolio outstanding
Write off rate=Value of Loans Written-Off / Average Gross Portfolio

Source: Consultative Group to Assist the Poor (CGAP)

2.1.8.3 Efficiency and Productivity

Efficiency and productivity indicators are performance measures that show how well the institution is streamlining its operations. Productivity indicators reflect the amount of output per unit of input, while efficiency indicators also take into account the cost of the inputs and/or the price of outputs. Since these indicators are not easily manipulated by management decisions, they are more readily comparable across institutions than, say, profitability indicators such as return on equity and assets. On the other hand, productivity and efficiency measures are less comprehensive indicators of performance than those of profitability (MicroRate et al, 2003).

Ratios under Efficiency and Productivity are: - operating expense ratio, active clients per loan officer, active clients per staff member, average outstanding loan size, average loan disbursed, client turnover, cost per active and etc.

Table 2.2: Productivity and Efficiency Ratios Calculation

Ratio	Formula	Explanation
Operating Expense	Operating Expense/Average Gross Loan Portfolio	Highlight personnel and administrative expenses relative to the loan portfolio the most commonly used efficiency indicator.
Cost per Active Client	Operating Expense/Average Number of Active Clients	Provides a meaningful measure of efficiency for an MFI, allowing it to determine the average cost of maintaining an active client.
Borrowers per Loan Officer	Number of Active Borrowers/Number of Loan Officers	Measures the average caseload of (average number of borrowers managed by) each loan officer.
Active Clients per Staff Member	Number of Active Clients/Total Number of Personnel	The overall productivity of the MFI's personnel in terms of managing clients, including borrowers, voluntary savers, and other clients.
Client Turnover	Number of Active Clients, beginning of period + Number of New Clients	Measures the net number of clients continuing to access services during the period;

	during period – Number of Active Clients, end of period/Average Number of Active Clients	used as one measurement of client satisfaction.
Average Outstanding Loan Size	Gross Loan Portfolio/Number of Loans Outstanding	Measures the average outstanding loan balance per borrower. This ratio is a profitability driver and a measure of how much of each loan is available to clients.
Average Loan Disbursed	Value of Loan Disbursed/Number of Loans Disbursed	Measures the average value of each loan disbursed. This ratio is frequently used to project disbursements.

Source: CGAP

2.1.8.4 Financial Management

Financial management assures that there is enough liquidity to meet an MFI's obligations to disburse loans to its borrowers and to repay loans to its creditors. Even though financial management is a back /support office function, decisions in this area can directly affect the bottom line of the institution. Errors in liquidity or foreign exchange management, for example, can easily compromise an institution with efficient credit operations and otherwise sound management. The importance of adequate liquidity, and hence of financial management, grows further if the MFI is mobilizing savings from depositors. Financial management can also have a decisive impact on profitability through the skill with which liquid funds are invested. Finally, managing

foreign exchange risk and matching the maturities of assets and liabilities involve financial management. Both are areas of great potential risk for an MFI and underline the importance of competent financial management (MicroRate et al, 2003).

Asset/ Liability Management is the ongoing process of planning, monitoring and controlling the volumes, maturities, rates and yields of assets and liabilities. The basis of financial intermediation is the ability to manage assets (the use of funds) and liabilities (the source of funds). Asset/liability management is required on the following levels:

- **Interest Rate Management:** The MFI must make sure that the use of funds generates more revenue than the cost of funds.
- **Asset Management:** Funds should be used to create assets that produce the most revenue (are most "productive").
- **Leverage:** The MFI seeks to borrow funds to increase assets and thereby increase revenue and net profit. The term leverage indicates the degree to which an MFI is using borrowed funds. At the same time, the MFI must manage the cost and use of its borrowings so that it generates more revenue than it pays in Interest and Fee Expense on those borrowings.
- **Liquidity Management:** The MFI must also make sure that it has sufficient funds available ("liquid") to meet any short-term obligations.

Ratios under Asset/Liability Management are:-yield on gross portfolio, portfolio to assets, cost of funds ratio, debt to equity, liquid ratio and so on (CGAP, 2009).

Table 2.3: Financial Management Ratios Calculation

Interest rate management	
Yield on gross Portfolio	Cash Received from Interest, Fees and Commissions on Loan Portfolio/Average Gross Loan Portfolio
Cost of Funds	Financial Expense on Funding Liabilities/(Average Deposit + Average Borrowing)
Asset Management	
Portfolio to Assets	Gross Loan Portfolio/Assets
Leverage	
Debt/Equity	Liabilities/Equity: The debt/equity ratio is of particular interest to lenders because it indicates how much of a safety cushion (in the form of equity) there is in the institution to absorb losses.
Liquidity Management	
Current Ratio	Cash + Trade Investments/Demand Deposit + Short-term Time Deposit + Short-term Borrowing +Interest Payable on Funding Liabilities +Accounts Payable and Other Short-term Liabilities) i.e. Current Asset/Current Liability

Source: CGAP

2.1.8.5 Profitability and Financial Viability/Sustainability

Profitability measures, such as return on equity (ROE) and return on assets (ROA), tend to summarize performance in all areas of the company. If portfolio quality is poor or efficiency is low, this will be reflected in profitability. Because they are an aggregate of so many factors, profitability indicators can be difficult to interpret. The fact that an MFI has a high ROE says little about why that is so. All performance indicators tend to be of limited use (in fact, they can be outright misleading) if looked at in isolation and this is particularly the case for profitability indicators. To understand how an institution achieves its profits (or losses); the analysis also has to take into account other indicators that illuminate the operational performance of the institution, such as operational efficiency and portfolio quality. The profitability analysis is further complicated by the fact that a significant number of microfinance institutions still receive grants and subsidized loans. "Comparing apples with apples" is always a problem in microfinance, because subsidies are still widespread and accounting practices vary widely. ROE and ROA are some indicators to measure profitability (MicroRate et al, 2003).

Financial viability/sustainability refers to the ability of the MFI to cover its costs with earned revenue. A financially viable MFI will not rely on donor funding to subsidize its operation (Letenah, 2009).

Ratios under Sustainability and Profitability are: - ROA, ROE, Operational Self-Sufficiency (OSS), financial self-sufficiency (FSS) and so on.

Table 2.4: Sustainability and Profitability Ratios Calculation

Ratio	Formula	Explanation
OSS	Financial Revenue/ (Financial Expense + Impairment Losses on Loans + Operating Expense)	Measures how well a MFI can cover its costs through operating revenues like salaries, supplies, loan losses, and other administrative costs.
FSS	Adjusted Financial Revenue/(Adjusted Financial Expense + Adjusted Impairment Losses on Loans + Adjusted Operating Expense)	Measures how well a MFI can cover its costs taking into account adjustments to operating revenues and expenses. i.e., valued at market prices.
ROA	Net Operating Income – Taxes/Average Assets	Measures how well the MFI uses its assets to generate returns. This ratio is net of taxes and excludes non operating items and donations.
ROE	Net Operating Income – Taxes/Average Equity	Calculates the rate of return on the average Equity for the period. Because the numerator does not include non operating items or donations and is net of taxes, the ratio is frequently used as a proxy for commercial viability.

Source: CGAP

FSS = Operational income / [Operational costs + financial costs + provision for loan losses + interest subsidy + in-kind subsidy adjustment] (Berne, 2005).

The financial self-sufficiency ratio corresponds to the operational self-sufficiency ratio, adjusted by the interest subsidy from concessional loans and in-kind subsidies. The institution has to plan that in the long run, it may have to get all its loans at market rates and pay all the costs itself, without any external grants. Unless financial self-sufficiency is reached, the long term provision of financial services is undermined by the continued necessity to rely on donor funds. Usually, financial self-sufficiency should also cover the cost of capital: the loss in the real value of equity due to inflation. Nevertheless, on the other hand, the assets gain value through inflation, and calculating the net cost or profit from inflation can be complicated (Berne, 2005).

2.1.8.6 Analytical Adjustment

Adjustments are additional, or hidden, costs incurred by the MFI that they need to recognize for internal management purposes, for example, when calculating and analyzing efficiency and profitability ratios. They are not to be included in the audited financial statements; they are internal adjustments. These are:-Subsidies, Inflation and Portfolio at risk.

A. Subsidies

- **Subsidized Cost of Funds**: - Examines the difference between an MFI's financial expense and the financial expense it would pay if all its funding liabilities were priced at market rate.

- **In-kind Subsidy**: - The difference between what the MFI is actually paying for a donated or subsidized good or service and what it would have to pay for the same good or service on the open market. Common examples of these in-kind subsidies are computers, consulting services, free office space, and free services of a manager.

B. Inflation

The rationale behind the inflation adjustment is that an MFI should, at a minimum, preserve the value of its equity (and shareholders investments) against erosion due to

inflation. In addition, this adjustment is important to consider when benchmarking institutions in different countries and economic environments.

Unlike subsidy adjustment, recording an inflation adjustment is common in many parts of the world and is mandated by Section 29 of the International Accounting Standards (IAS) in high inflation economies.

C. Portfolio at Risk

- **Impairment Loss Allowance: -** Intended to bring as MFI's Impairment Loss Allowance in line with the quality of its Gross Loan Portfolio.

- **Write-off:-** Intended to identify loans on an MFI's books that by any reasonable standard should be written-off. This adjustment can significantly reduce the value of an MFI's assets if persistent delinquent loans are not counted as part of the gross loan portfolio (CGAP, 2009).

2.2 Empirical Review

2.2.1 Empirical Studies in Global Context

Empirical evidences summarized by Letenah, 2009 referring different Studies are shown as follows:

- The Studies conducted by Lafourcade et al, 2005 as follow:-

The outreach and financial performance of Microfinance institutions in Africa shows that in terms of breadth of outreach; sub-Saharan MFI have a higher number of savers than other regions of the world. However, in terms of number of borrowers, Africa is lagging behind South Asia and East Asia and the Pacific. In terms of depth of outreach measured by the percentage of women borrowers, sub-Saharan Africa has 61% women borrowers as compared to 86% in south Asia and 80% in Middle East and North Africa (MENA) and 76% in East Asia and Pacific. Sub-Saharan Africa MFI has the lowest

financial performance of ROA of 2% as compared to 7.6%-10% of Eastern Europe and Central Asia.

- One of the well done studies in the global microfinance industry is the study by Cull et al (2007). In their study they have used data from 124 MFIs from 49 developing countries. They have not compared the performance of the MFIs with a benchmark but the result of their studies can be summarized as follow:-

The average Financial Self Sufficiency (FSS) is found to be 1.035 meaning MFIs are becoming financially self sufficient, OSS is a bit greater 1.165, whereas Adjusted ROA is negative (-0.027). The adjusted ROA shows that most MFIs have no positive return on their investment. Depth of outreach indicator like percentage of women borrowers is found to be 64.9% and GLP to assets of 68.9%.

- Hartarska in 2004 has studied Microfinance governance in Central and Eastern European region and she found that:-

The average ROA is 3.038 indicating profitable MFIs in this region, and OSS of 91.99. They do have an average number of 7268 borrowers.

2.2.2 Empirical Studies in Ethiopian context

Empirical studies conducted by Kereta, Adeno and Arega are as follows:-

I. The study conducted by Kereta (2007) is simple correlation econometric analysis technique and descriptive analysis technique were employed in the analysis process and reveals the following results:-

He studied the industry's outreach and financial performance using simple descriptive analysis using graphs and percentage growth rates. The result of his study showed that in terms of breadth of outreach, MFIs are serving an increasing number of clients in each year from 2003-2007. The industry's growth rate in terms of number of clients is 22.9%. In terms of depth of outreach measured by average loan size Ethiopian MFIs have a loan

size which is on average nearer to the standard $150 (Birr 1352). So they can be considered pro poor. From sustainability angel, the MFIs are operationally sustainable as measured by ROA and ROE and the industry's profit performance is improving overtime. Dependency ratio as measured by the ratio of donated equity to capital decline and the ratio of retained earnings to total capital is rising letting the industry to be financially self sufficient. The study also found that PAR is at 3.2% for the period from 2005-2007 which is in comfort zone (Kereta, 2007).

II. The study conducted by Adeno (2007) on one of the largest MFIs in Ethiopia Amhara Credit and Saving Institution (ACSI) was descriptive type of study and results that:-

By 2005, the institution was operationally and financially self sufficient at 119.9% and 115.3% respectively. The operating cost was as low as five cents in 2005. ACSI also has a high portfolio quality, as delinquency rates are around 1.9% of >30 days**.** The average loan and savings balances, ROA, ROE, Yield on Portfolio and Operating Expense to Total Expense over the five year were 2,702.00 Birr, 4.5% , 13%., 16.58% and 65.95% respectively. Moreover; ACSI performed debt to equity ratio and loans to total assets ratio of 230.88% and 68.73% (Adeno, 2007).

III. The study conducted by Arega (2007) on three (Aggar, Harbu and SFPI) MFIs which are found in Addis Ababa. The study was exploratory and descriptive methods and some results revealed by him are:-

The ROA and ROE ratios were for Aggar, was unfavorable (negative) results with the ROA ratios of -6.66% and -7.11% in 2005 and 2006 fiscal periods and with the ROE ratios of -9.04% in 2005 and - 13.05% in 2006. The unfavorable ratios were the results of the huge net loss reported by the firm during the years. SFPI's ROA ratios for 2005 and 2006 fiscal periods were 0.60% and 3.01% respectively. It also reported ROE ratios of 1.14% and 5.68% in 2005 and 2006 fiscal years, respectively. The ROA ratios for Harbu were 0.28% in 2005 and -2.58% in 2006. While the ROE ratios for the same years were 0.97%

and -3.40% respectively. Regarding the productivity ratio for Aggar was 210 for 2006 and 191 in 2005. For SFPI during 2005 was 505 and 515 in 2006. A ratio of active borrowers per credit officer for Harbu in 2005 was 134 whereas the 2006 result as per the analysis indicated 283, which reflected a 111.19% increment. The PAR > 30 for Aggar was 23.05% and 20.67% in 2005 and 2006 respectively. Harbu also reported a portfolio at risk ratio of 3.67% during 2006 (Arega, 2007).

The above review of literature highlights that all the studies so far conducted are mainly discussing the problems and prospects of Micro Finance Institutions in general at Macro-level. The researcher also observed in the review of literature that there are no specific studies conducted mainly to understand the problems of Micro Finance with regard to finance and operation at a District level. Hence, the researcher felt it appropriate to take up the present study entitled "Evaluation of Financial and Operating Performance – A case Study of Dedebit Credit and Saving Institution (DECSI) - Mekelle Branch No 1, *Tigray"* to state the financial and operating problems.

CHAPTER III
DESCRIPITION OF THE STUDY AREA

3.1 A Brief Overview of DECSI

3.1.1 Foundation

According to the research conducted on the socio-economic status in certain sample Woredas of Tigray Regional State in 1993, the absence of financial institutions which can provide financial services to the poor was one of the obstacles that hindered the undertaking of rehabilitation and development activities. The research commissioned by the Relief Society of Tigray /REST/ revealed the significance of establishing this institution so that a full pledged financial services can be provided to the poor households. Hence, Rural Credit Scheme of Tigray, as one development wing of REST, was established in 1994. This was later called as Dedebit Credit and Saving Institution /DECSI/.

After 3 years of its operation, Dedebit Credit and Saving Institution /DECSI/ was reregistered in the form of a Share holding Company as a legal entity in 1997 following the proclamation of the National Bank of Ethiopia. With such commitment, DECSI has been working widely in rural and urban Tigray for the last 16 years.

3.1.2 Vision

The vision of DECSI is to see poverty eradicated in Tigray Regional State and the country as well through the provision of quality of financial services by establishing a competent, strong, efficient, stable and sustainable financial institution in our continent

3.1.3 Mission

The mission of DECSI is to improve the wellbeing of those individuals operating in the areas of subsistence agriculture, micro, small and medium enterprises by increasing

their income and wealth through the provision of quality and sustainable microfinance services.

3.1.4 Objectives

- To improve food securities at household level both in the rural and urban areas of the region.
- To create job opportunities to the unemployed parts of the population through promoting micro, small and medium enterprises in the region.
- To stimulate the local economy through offering adequate and efficient financial services and builds financially sound and sustainable institution.

3.1.5 Target groups

Though clients vary according to the type of product services, the target groups are identified as:

- Community members working to come out of poverty
- The poorest of the poor capable of generating income /productive poor/
- Owners of micro, small and medium enterprises

3.1.6 Ownership

Dedebit Microfinance /the so called DECSI/ is a share company established in accordance with the requirements of the National Bank of Ethiopia. The owners (share holders) are:

- The government of Tigray Regional State
- The Relief Society of Tigray (REST)
- Women's Association of Tigray
- Farmers' Association of Tigray
- Youth Association of Tigray

3.1.7 Area Coverage

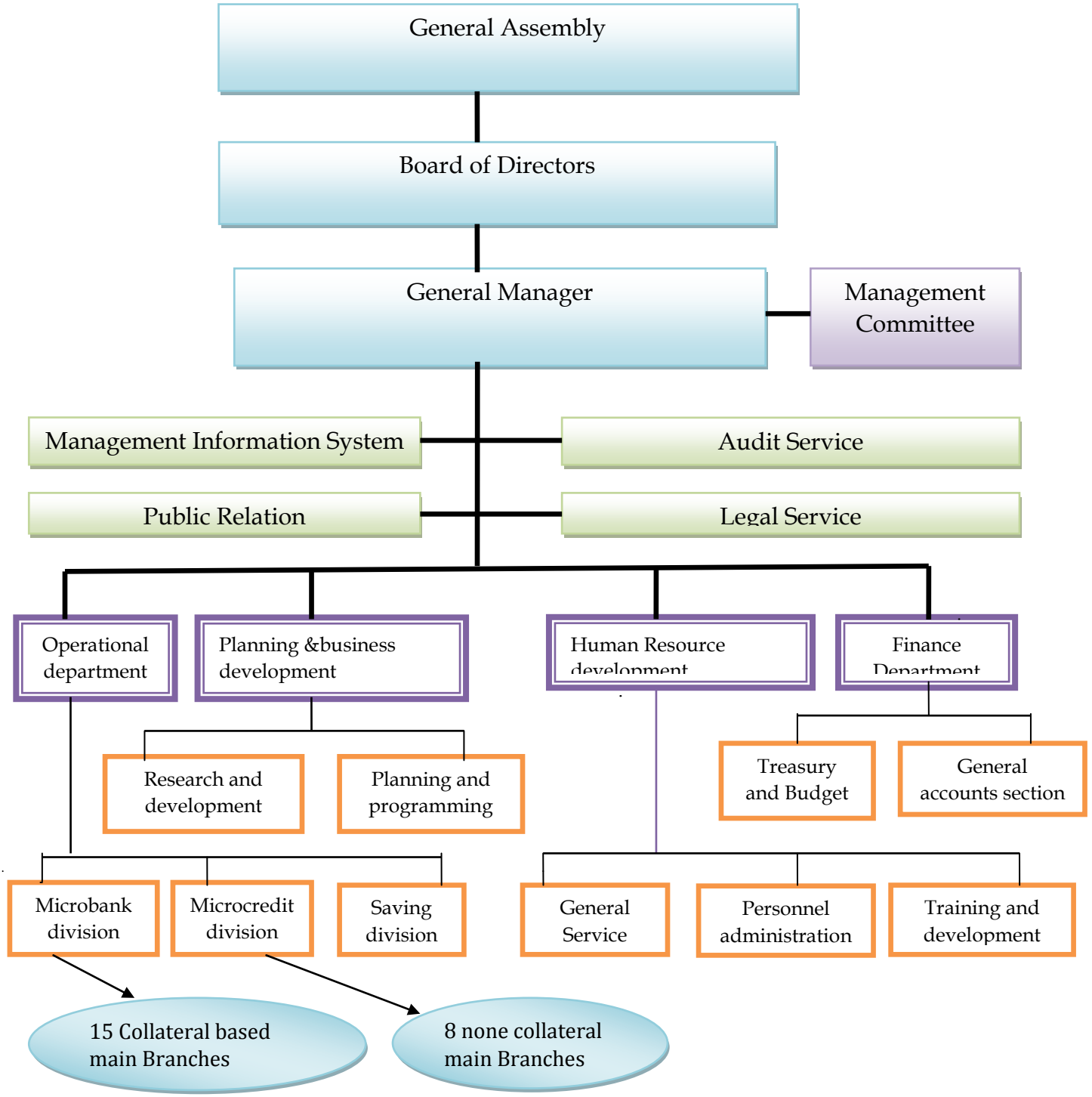
When the institution commenced operation in 1994; it had branches in 8 woredas of the region with only 31 employees. Currently it is providing its services through 139 functionally decentralized offices including Addis Ababa and Gonder. It also has 8 main branch offices and 15 micro finance collateral based branches. The current number of staff has also reached 2000. Branches in Addis Ababa and Gonder are opened to commence remittance services from abroad.

In light of this, Mekelle branch No 1 is one of the main branches of the institution among 15 micro finance collateral based branches. Currently, it supervises three sub-branches; namely: Semen sub branch, Debub sub branch and Tureta sub branch which are found in Mekelle town.

3.1.8 Types of Services

At this time, DECSI is rendering four types of financial services namely: - Credit (i.e. regular or general and agricultural input loans), saving (i.e. savings mobilization from loan clients and the community), Money Transfer, Pension Payment (i.e. services to retired civil and military personnel), Current account, CPO, Tax collection and Gold Management (DECSI, 2009).

3.1.9 Organizational Structure of DECSI



CHAPTER IV
DISCUSION AND ANALYSIS

4. 1 Introduction

To find the major out puts of the study and to suggest important recommendations, the collected data must be analyzed and discussed. Accordingly, the analysis and important findings of the study are discussed under this chapter.

This study measures the performance of the branch by consolidating all necessary data from the sub-branches including the main branch itself. The findings stated below are extracted and analyzed from the financial statements and operational report of each sub-branches and main branch.

In this study, the researcher tries to encompass the major performance measurement indicators used by different scholars in studies of MFIs so far. Moreover, under each performance measurement indicators, certain ratios which assumed best describe the performance and fit the data on hand are applied to measure the branch's performance. The performance measurement indicators that are discussed under the study are; Outreach, Portfolio quality, Efficiency and Productivity**,** Financial Management as well as Profitability and Financial Viability or Sustainability.

Since the branch is under the supervision of the main office, some hidden costs which may need analytical adjustments like, inflation and cost of funds (hidden cost, like training) have not been recognized by the branch. Therefore, the researcher does not consider any measurement ratios which need analytical adjustments.

4.2 The Structure of DECSI-Mekelle Branch No 1

DECSI-Mekelle Branch No 1 is one of the collateral based branches among 15 main branches of DECSI and which encompasses 3 sub-branches; namely Semen sub-branch, Debub sub-branch and Tureta sub-branch. The branch started it function as main branch

in 2004. However, the sub-branches had been providing their functions before the Branch established as main branch. Semen and Debub sub-branches provide regular loan to the business community and for urban package programs. Tureta sub-branch manages pension funds to the retirements of some organizations that have agreements with DECSI. In addition, Tureta sub branch provides saving and loan services for civil servants. The main branch itself also provides basic financial services to the business community. Moreover, the branch provides loans for housing and cooperatives societies.

4.3 Performance of DECSI-Mekelle Branch No 1

The branch strongly stresses that, the business approach in its operation is a guiding principle and the way to ensure institutional sustainability. It clearly predetermined that in the branch nothing is provided for free. In other words, the branch gives its financial services on fee basis. Interest is collected on credit provided and pays for savings deposited in the branch. Fees are charged for other services like local money transfer, pension administration and sell of passbook. To get credit from the branch, the clients should require passing through rigorous screenings and evaluations.

According to Adeno (2007), effective and profitable financial service delivery requires identifying who the potential clients are and differentiating the market base on credit demand. In the case of the branch, the productive active clients with the demand for such services are the target clientele. Potential clients are those economically productive lacking access to conventional banking services. Loan applicants are expected to be those in need of working capital and able to utilize the loan in productive businesses. Therefore, the branch provides credit only to income generating activities. No consumption loan is granted by the branch.

Regarding the loan size, the branch determines and provides the loan that is requested by clients is decided by considering various requirements. The main requirements are

the type of activities the client engaged in, borrower's capacity, credit history, institutional capacity and regulations of the supervising agency, and the business plan.

- **The main activities performed by the main branch**

1. Business Loan: - due to the requirements, the loan is based on house collateral and is focusing on individuals who own micro, small and medium enterprises. The loan period is utmost 3 years. The requirements that the clients should fulfill are: - business plan, renewed business license, original site plan of a house, original ownership certificate of collateral and Marriage certificate. As a result, the loan size is determined based on the value of collateral presented and the amounts requested by clients. The interest rate charged to these clients is 10% per annum.

2. Housing Loan: - the branch provides for construction of residential /business/ houses. The requirements that the clients should fulfill are: - the house under construction should be at least with foundation and beam erected, original plan and ownership certificate, marriage certificate, for those who earn salaries, supporting letter from their employer is compulsory. Other clients should avail financial statement that indicates their capacity to repay the loan. The loan size for housing construction is not more than 300,000.00 Birr.

3. Money transfer: - it is a service which enables customers to transfer money from one place to another in a timely, certain and safe manner. It is introduced to increase the income of rural communities through providing all rounded financial services.

4. Saving services: - the branch provides saving service to all members of the community; like clients, non-clients, governmental and non-governmental organizations regardless of their level of wealth. Massive mobilization of saving is undertaken as part of the key strategy of the institution to achieve financial self

sufficiency. The service is aimed at boosting the economy through developing the culture of saving. Saving helps not only to solve immediate problems and expand income sources but also creates self-confidence and high spirit of the customers. It increases the chance of getting loans by strengthening collateral. It enables to follow planned expenditure through raising financial management capacity. Any saver has the right to withdraw his/her money any time during working hours. Through this service, it is desired to cover money required for loans out of saving deposits. The interest paid for saving/deposit/ is 4% per annum.

5. Equipment leasing loan: - such product is given in kind and different loan sizes depending on the type and quality of the machinery. This kind of loan is given to cooperative societies. Maximum loan term is 3 years and it is provided with a guarantee from the regional government (DECSI, 2010).

- **The main activities performed by the sub branches of the branch**

1. Urban package loan: - it is provided to owners of micro and small business enterprises in towns. It also consists of loan for urban agriculture. It is implemented in collaboration with the Bureau of Trade and Industry as well as with the Agency of Micro, Small and Medium Enterprises as guarantees. Regarding this program, the loan period is ranges from 1 to 3 years and maximum amount of loan provided is Birr 5,000.

2. Regular Loan: - it is a loan provided to regular clients of branch and it is provided through group guarantee. The minimum number of group numbers is 3 and the maximum period of loan is 3 years. The maximum loan amounting Birr 10,000 is given to clients who brought real and measurable results in their lives (DECSI, 2010). The interest rate charged to these clients is 18% per annum.

3. Civil servant loan: - it is given to civil servants for their different purposes; like, to cover education fees, for house construction and for purchase of house furniture.

Civil servants should bring a support and letter of guarantee from their employer which indicates the amount of their salary and other relevant information. The loan allowed is the maximum of 7 months' salary with 15% interest rate per annum.

4. Pension payments: - the intention of DECSI regarding this service is providing pensions to pensioners in their vicinity without being exposed to unnecessary ups and downs and extra expenses. This is implemented by different mode of operations in collaboration with the Social Security Agency of the region. Accordingly, the branch implements this service in one of its sub branches to the pensioners. Hence, payrolls are prepared by the Agency for Pensioners and payments are made by the sub branch using its payout offices.

5. Saving Services: - this service is provided to all communities as per their choice and mandatory for borrowers as it mentioned above under main branch's activities.

In general the Interest rate charged to borrowers is a commercial declining interest rate ranging from 9.9 to 18 percent per annum depending on the type and risk characteristics of the product. All interests are calculated on remaining balances. The interest is meant to cover administrative costs, cost of fund, default and inflation (DECSI, 2010).

4.3.1 Outreach/Coverage

The number of client is a sheer indicator for how MFI is reaching the poor. Expanding the number of clients being served is an ultimate goal of almost all microfinance interventions. Outreach can be measured in terms of coverage i.e. the number of clients served and volume of services (total savings on deposit and total outstanding loan portfolio) and depth i.e. to which extent the institution serves poor households and which economic sectors as it mentioned in the literature part of the study. However, this

study focuses on the coverage of the branch's clients in terms of gender, total active clients, total active clients' growth and percentage of female.

Table 4.5: Active Clients Served by the Branch

Description	2005	2006	2007	2008	2009	Average
Male	3728	3049	4014	2508	1700	3000
Female	3260	4119	5032	3202	2100	3543
Cooperatives	0	0	45	10	55	22
Total	6988	7168	9091	5720	3855	6564
Client Growth	-	2.58%	26.83%	-37.08%	-32.60%	-10.07%
% of Female	46.65%	57.46%	55.35%	55.98%	54.47%	53.98%

Source: Researchers' own computation from operational report

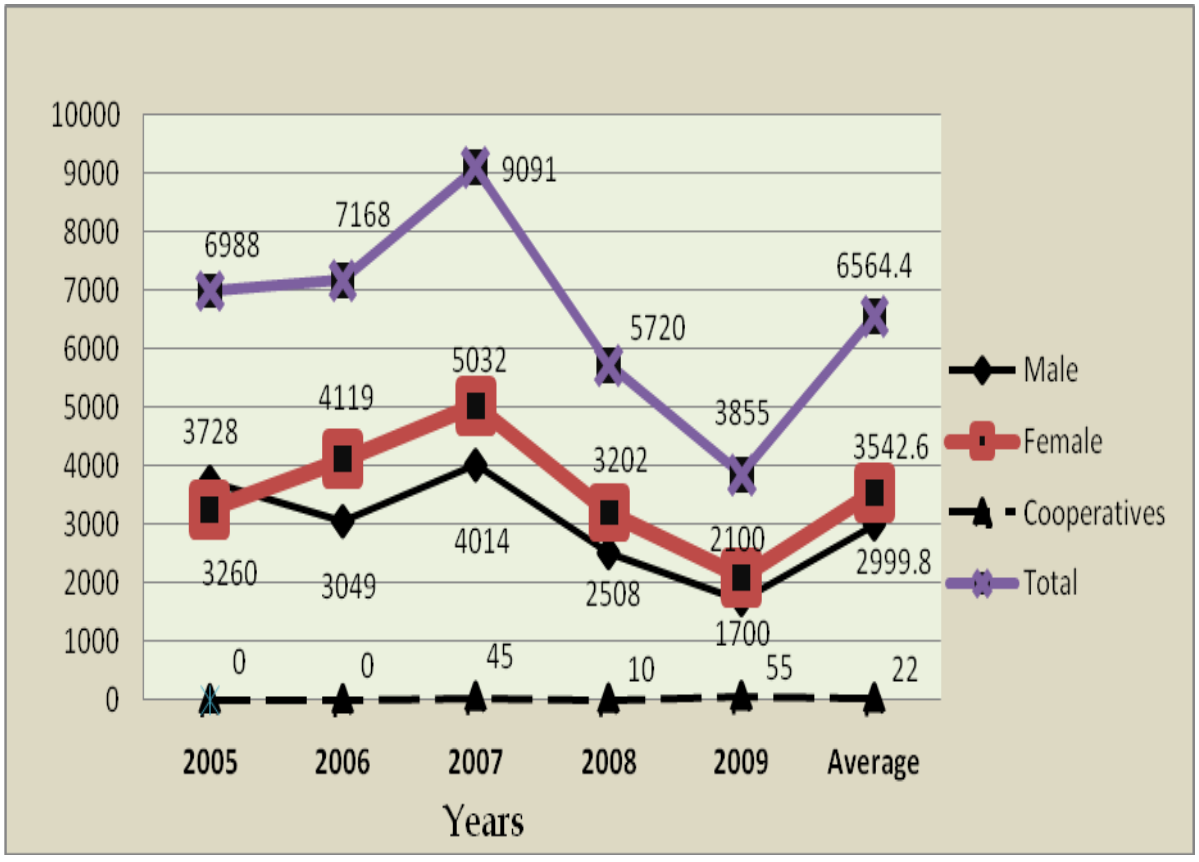
4.3.1.1 Active Clients

Active clients are the number of individuals who currently have an outstanding loan balance with the branch or are responsible for repaying any portion of the gross loan portfolio. As one can see from the Figure 1, the branch have a total average number of 6564 active clients for the last five years. The number of clients reaches to 9,091 in the year 2007 but declined to 3855 number in the year 2009. The decline in number of clients is due to decline of new loans provided to new clients. As per the explanation of the branch's staff in position, the decline of loan is the government policy to combat the inflation of the country. Because of the above reason, the growth of client declined by the 10.07% in average for last four years as shown in figure 2. The rates of declines are

37.o8% and 32.60% in 2008 and 2009 respectively. This implies that the branch is losing its active as well as potential clients. Therefore, it will be dangerous for the branch's profitability as well as re-maintenance of the lost clients in the future.

The cooperative societies are the associations of certain group involved in different business activities and each of them have at least 10 members of both sex. The branch serves an average of 22 cooperative societies for last 3 years as shown in the Table 4.5 and Figure 1. The branch gives loan for 55 cooperatives in year 2009 and it is good performance as compared to year 2008 which are only 10 cooperatives. Though the branch declines loans significantly in 2009 to the individual clients, the number of cooperatives has increase in this year. Increasing the number of cooperatives is very important for the branch to maintain its client because one cooperative contain at least 10 members as mentioned above.

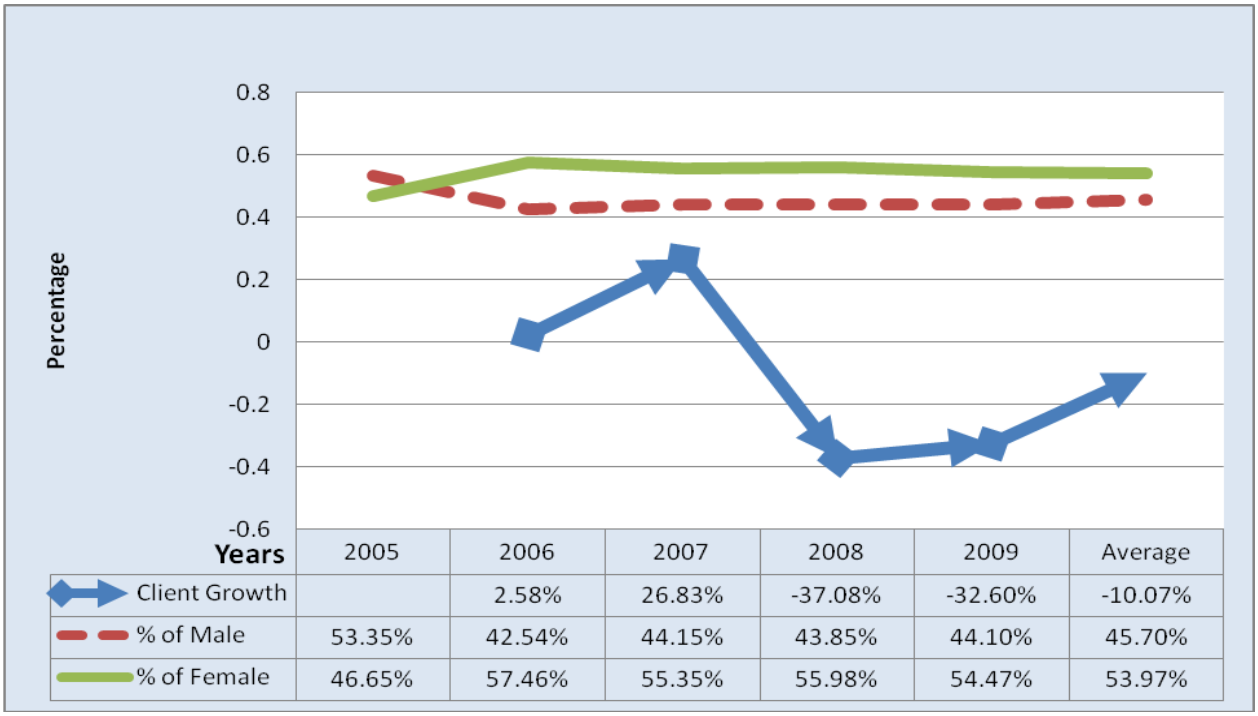
Figure 1: Trend of Total Active Client



4.3.1.2 Women

Regarding how the branch serving the women can be seen by comparing the number of female to male. They represent an average of 53.98 % of the active clients of the branch and the trends of the ratios shown on the Figure 2, ranges from 46.65% - 54.47%. Most of the times, women are hardly served by financial institutions because they couldn't get collateral to be served and are incapable of paying their debt as compared to men. However, the branch has been serving them even more than male clients. This implies that the outreach of the branch as regard to female is encouraging.

Figure 2: Trends of Gender and Client Growth



Years	2005	2006	2007	2008	2009	Average
Client Growth		2.58%	26.83%	-37.08%	-32.60%	-10.07%
% of Male	53.35%	42.54%	44.15%	43.85%	44.10%	45.70%
% of Female	46.65%	57.46%	55.35%	55.98%	54.47%	53.97%

4. 3.2 Portfolio Qualities

According to Ledgerwood, 1999, p.230, the portfolio quality reflects the risk of loan delinquency. It has a direct influence on the profitability, liquidity, capital adequacy of any MFIs and, therefore, on their sustainability. Management of the portfolio is crucial

one for the viability of the loan provision and for the security of clients' savings. If the quality of the portfolio is poor, the MFI cannot continue to operate in the long run.

4.3.2.1 Arrears rate

Since the branch requires collateral to provide a loan, it has no write-off policy to any arrears. However, the branch convert the arrears to bad debt expense account totally the portfolios at arrears with the past due date of 365 and above.

As it described by Ledgerwood, 1999, p.207, arrears are loan amounts overdue from the originally set repayment time and date. In other terms it is the amount that has become due and has not been received. The arrears rate provides an indication of the risk that a loan will not be repaid. The arrears rate shows how of the loan has become due and has not been received. However, the arrears rate understates the risk to the portfolio and understates the potential severity of a delinquency problem, because it only considers payments as they become past due, not the entire amount of the loan outstanding that is actually at risk. Because of the above reason, the researcher does not consider this ratio in this study.

4.3.2.2 Repayment Rate

It measures loan repayments collected compared to the total expected outstanding over a given period of time. Therefore, it is important in cash flow projections and monitoring loan repayments.

As it described by Dan (2004) repayment ratio is calculated as the amount paid (minus any prepayments) divided by the sum of the amounts due plus the amounts past due. This ratio has fallen out of favor among microfinance practitioners because it hides a looming arrears problem. Often prepayments are not subtracted, so the good works of preparers' cover up late payments of those in arrears. The industry standard in world is 95 percent.

Though the importance of this ratio is low according to the above writer, the researcher tries to calculate this ratio as it can be seen in table 4.6. The average repayment rate of the branch for last five years is 82.30%, which is significantly far from the industry standard. However, the performance improved drastically in 2009 with the ratio of 123.95%. Regarding the trends of this ratio, its performance is weak in 2006 and 2007 as compared to other years. The implication of this ratio is that the branch performing well in later years as it can be seen from appendix ''G'' at page 80.

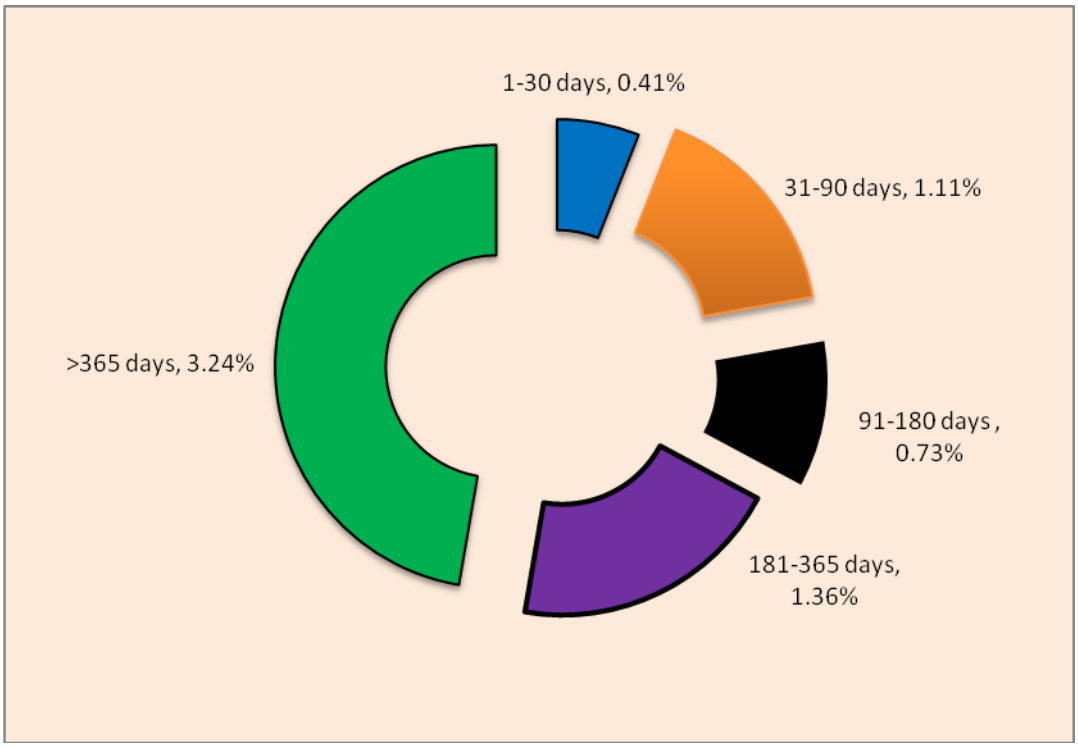
4.3.2.3 Portfolio at Risk (PAR)

PAR is a better indicator or measure of risk associated with the portfolio. The loan portfolio are said to be portfolio at risk, means that the loans are infected to be in arrears. In other terms the calculation takes into account the outstanding loan balance amounts that have one or more installments of principal past due more than a certain number of days. The PAR helps to see the real picture of the risk of delinquency particularly in credit terms with small loan payments over a long credit period.

The branch displays portfolio quality with PAR of an average of 0.41% which past due date of up to 30 days. The minimum ratio was 0.22% in the year 2007 and the maximum ratio was 0.47% in 2008. The PAR with more than 30 days up to 90 is 1.11% in average. The minimum ratio of the branch is 0.41% in 2007, while the maximum is 3.34%in 2006. For the PAR above 90 but bellow 181 days, for days above 180 up to 365 and for the days above 365, the ratios are 0.73%, 1.36%, and 3.24% respectively. The maximum ratio ever observed in this study is 8.83% in 2009 for the days 365 and above but the minimum ratio is 0.69% in 2005 as it shown on figure 3.

The study also examines PAR of the branch by comparing the outstanding balance of all loans with 30 days (PAR > 30) past due payments with the value of current portfolio outstanding. Hence, the result ranges 2.66% to 14%; however, the average over five years is 6.83%.

Figure 3: Average portfolio at Risk



Concerning to this measurement indicator; the lower the ratio, the better the performance the branch achieves. In general, the trend of this ratio shows that the branch performs well in 2007 for all PARs except for days more than 365 (2.17%). Table 4.6 describes PAR for all years and different days' intervals. From the trend we can learn that, at the time of good achievement in performance especially in terms of number of clients, the quality of portfolio increases. As the loan provision declines by the branch, the clients motives towards a work also declines, as a result they could unable to pay their loans back to the branch. As per the responses of the officials of the branch, the branch starts to take legal action for the amount not paid back after the first notice to the clients as far as they are collateralized.

Table 4.6: Trends of Portfolio at Risk Ratio

Particulars	2005	2006	2007	2008	2009	Average
1-30 days	0.46%	0.44%	0.22%	0.47%	0.46%	0.41%
31-90 days	0.51%	3.34%	0.41%	0.82%	0.47%	1.11%
91-180 days	0.77%	0.52%	0.50%	1.11%	0.73%	0.73%
181-365 days	0.66%	1.16%	0.50%	1.90%	2.56%	1.36%
>365 days	0.69%	1.28%	2.17%	3.24%	8.83%	3.24%
>30 days	2.66%	6.44%	3.68%	7.37%	14.00%	6.83%
Repayment Rate	82.68%	59.07%	56.13%	90.82%	123.95%	80.30%
Write-off ratio	0.99%	2.16%	2.78%	4.04%	10.02%	4.84%

Source: Researchers' own computation from operational report

4.3.2.4 Write -Off Ratio

According to MicroRate, 2003, the Write-Off Ratio is calculated by dividing total write-offs for the period by the period's average gross portfolio. It simply represents the loans that the institution has removed from its books because of a substantial doubt that they will be recovered. The writing off of a loan is an accounting transaction to prevent assets from being unrealistically inflated by loans that may not be recovered. The writing off of a loan affects the gross loan portfolio and loan loss reserves equally. So unless provision reserves are inadequate, the transaction will not affect total assets, net loan portfolio, expenses or net income. Write-offs have no bearing whatsoever on collection efforts or on the client's obligation to repay.

Though the branch has no write-off plan in their policy as it is collateralized based branch, in practice it write of the arrears of the different due date and transfers to bad debt account. This account changed in to bad debt expense account with the rate of 25%, 50% and 100% of the days 91 to 180, 181 to 365 and above 365 past due date amount (arrears) of the loan portfolio, respectively.

Accordingly, the branch's average write-off ratio is 4.48%. The maximum ratio is 10.02% in 2009 and the minimum ratio is 0.99% in 2005 as shown in table 4.6. Regarding the trend, the branch's write-off ratio increases year to year ranging from 0.99%-10.02% (see appendix G); implies, the inefficiency of collection of loans as well as the sign of declines of quality of portfolio.

4.3.3 Efficiency and Productivity

Efficiency and productivity are indicators that reveal how well the branch uses its all assets and personal resources. The main points discussed under this category are; operating expense ratio, borrower per loan officer, active clients per staff members, average outstanding loan size and average disbursed loan size as an efficiency and productivity indicators. Efficiency measures the cost per unit of output where as productivity focuses on the capacity of credit officers to serve as many clients as possible. Table 4.7, shows that the summary of efficiency and productivity measurements of the branch.

4.3.3.1 Operating Expense Ratio

This ratio is the most commonly used measurement indicator of the efficiency. It reveals that, how much administrative and personnel expenses to the branch's yield on the gross loan Portfolio. It is consists of operating expenses as a percentage of average gross loan portfolio. The lower the ratio, the more efficient the branch is. The operating expense ratio enables the reader to easily compare the expenses of the branch with its revenue.

Table 4.7: Trends of the Efficiency and Productivity Measurements

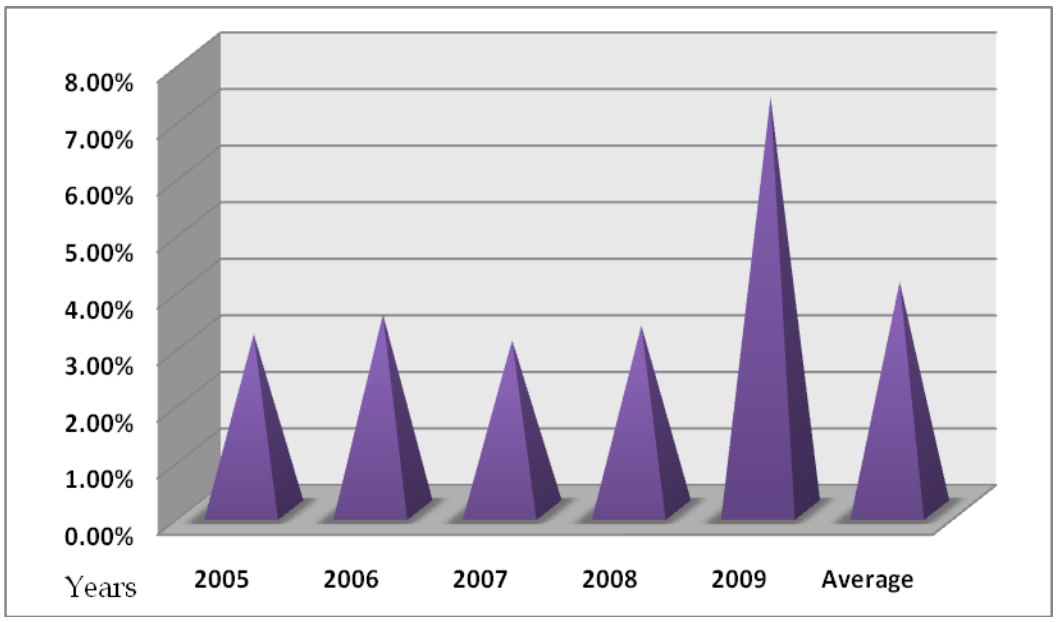
Particulars	2005	2006	2007	2008	2009	Average
Operating Expense Ratio	3.11%	3.46%	3.00%	3.26%	7.30%	**4.03%**
Borrowers per Loan Officer	874	796	1010	520	275	**696**
Active Clients per Staff Member	159	153	165	99	55	**126**
Average Outstanding Loan Size	2,157.26	3,705.33	6,145.72	6,237.41	6,470.68	**4,943.28**
Average Loan Disbursed size	2,736.16	4,525.10	4,854.87	5,305.08	4,966.92	**4,477.62**

Source: Researchers' own computation from operational report

As it illustrated in figure 4, the average expense ratio for the last five years is 4.03%. That means the operating cost is as low as 0.0403 Birr (4 cent) for 1 Birr portfolio. The trend of this ratio ranges from 3.00% to 3.46% in the periods of 2005 to 2008 which all are below the average. However, in the recent year (i.e. 2009), this ratio rises drastically to 7.30%. This indicates that the branch's efficiency is very poor in 2009 as compared to the rest four years.

The branch's operative expense increases more than double in this year and on contrary gross loan portfolio decreases in certain amount. The main operative expenses that the branch incurs in this year are the bad debt account amounts that has past due date. If the branch won't collect the amount of those bad debt account time and again till declined to insignificant amount, it deteriorates the profit of the branch and it may unable to manage later if accumulated to large amount.

Figure 4: Operating Expense Ratio



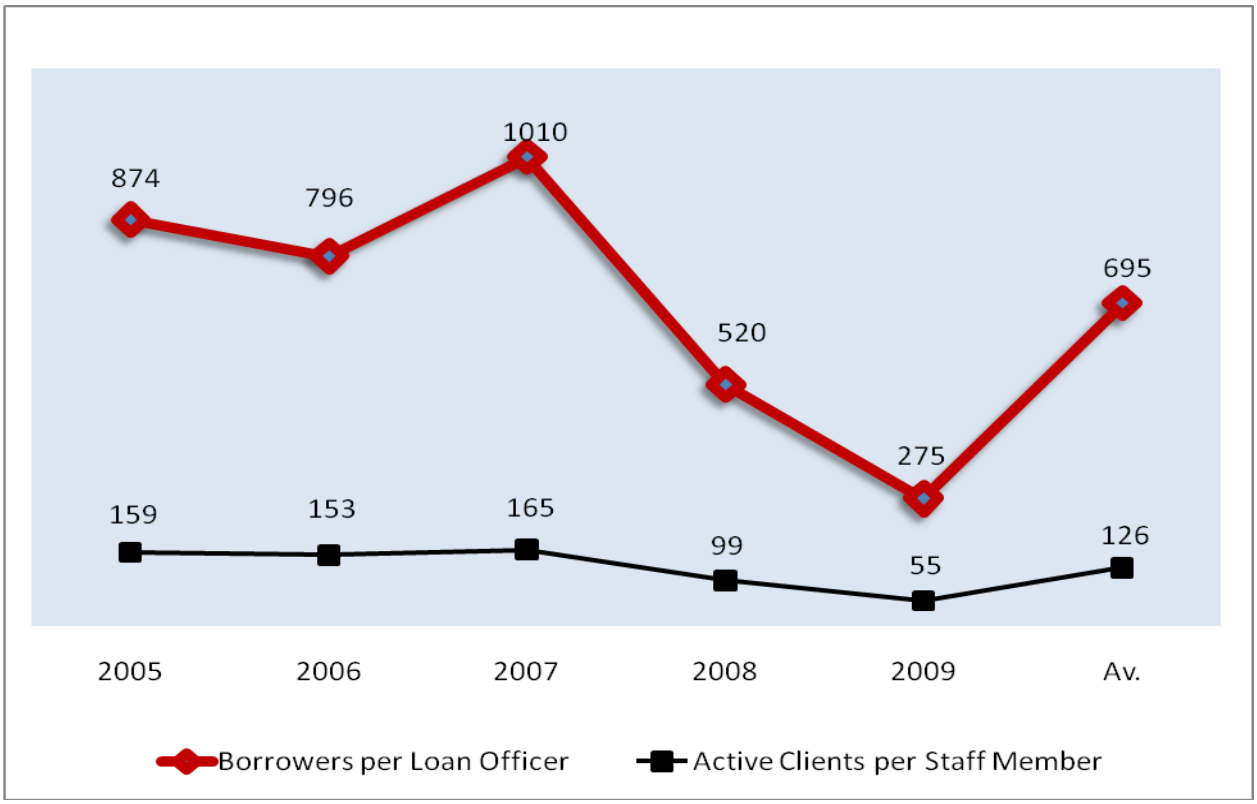
4.3.3.2 Active clients per Loan Officer

It measures the average caseload of each loan officer and indicates loan officer productivity as well as the institution's operational efficiency. It is calculated by dividing number of active borrowers to number of loan officers of the branch. Its interpretation is that, the higher the number the better the performance. As discovered in the table 4.7, the average caseload to loan officer is 696. In other word, each loan officer serves an average of 696 clients in a year. The branch performs well in 2007 with number of 1010 borrowers per loan officer. On contrary, the branch's efficiency declined in years 2008 and 2009 as compared to the previous three years. To have the whole picture it is better to see figure 5. This happened due to decline in loan size as it mentioned under outreach of the number of clients. The other element that makes this figure lower and lower is the increments of loan officers while the number of clients going decline.

The reason that the officers increase is as per the officials response, in the later years even if the clients decline the size of task increases in the branch as the services increase

as years goes increase. The loan which had been taken at early years has been collected in later years. Collection of loan takes more time than providing the loan.

Figure 5: Trends of Borrowers per Loan Officer and Active Clients per Staff



4.3.3.3 Active Clients per Staff Member

This measures the personnel productivity; i.e. the overall productivity of the branch's total human resources in managing clients who have an outstanding loan balance and are thereby contributing to the financial revenue of the branch. It is calculated by dividing the number of active clients to the total number of staffs of the branch. The average number in this measurement is 126 as shown in the Table 4.7. The highest number is 165 in 2007 and the lowest number is 55 in 2009. The productivity of the branch is better for earlier three years and declined for the later two years as it can be seen from the trend of the ratios illustrated on the Figure 5. Meaning of this ratio is just like the active clients per staff member ratio, the higher the ratio of the borrowers per

staff member, the more productive the branch is. Here, still the branch's staff number increases while clients decline. If the trends go like that in the future, the branch's personnel productivity will be under a question. However; the convincing idea here is the lending takes less time than collecting the loan as the branch provides loan at early years.

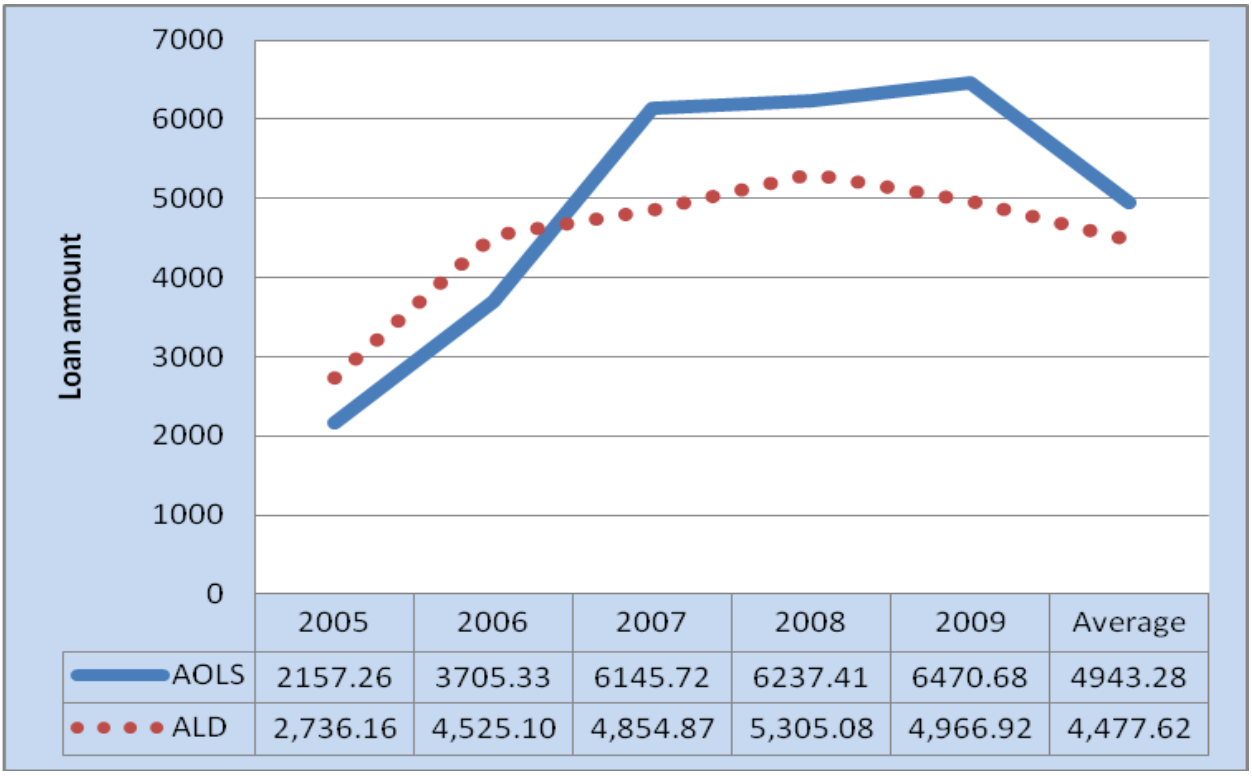
4.3.3.4 Average Outstanding Loan Size (AOLS)

It indicates the average outstanding loan balance per client. As it mentioned in the literature part of the study, this ratio is a profitability driver and measures how much of each loan is available to clients. The average ratio for the branch is 4943.28 for last five years. The trend of this ratio increases year by year through all years. It is 2157.26 in year 2005 and it grows to 6470.68 in 2009. For the latter three years, the ratios become high as compared to the former two years as it is displayed in the figure 6 and table 4.7. Therefore, this indicates that the branch's performance is better for the last three years as compared to the first two years. However, this ratio does not guarantee for profitability when a number of clients go declining.

4.3.3.5 Average Loan Disbursed

This ratio measures the average value of each loan disbursed to the clients. The five years average ratio is 4477.62. The ratios are almost doubled for last four years as compared to the year 2005 which is 2736.16. Figure 6, demonstrates the trend of the average loan disbursed for the last five years in the branch. This measurement helps the branch to predict the future average disbursements to the client. Since the branch provides loan to different categories of the clients with various loan size ranging from seven months' salary of the employee to more than five million Birr to business individuals; it is difficult to say exactly the performance of the branch is good but in general, by observing the figure one can say the branch's performance is progressive in first two years and almost constant in last three years. The higher the amount of the ratio, the better the performance of the branch is as compared to the rest of the years.

Figure 6: Average Outstanding Loan Size and Average Loan Disbursement



	2005	2006	2007	2008	2009	Average
AOLS	2157.26	3705.33	6145.72	6237.41	6470.68	4943.28
ALD	2,736.16	4,525.10	4,854.87	5,305.08	4,966.92	4,477.62

4.3.4 Financial (Asset/Liability) Management

As it described at the literature part of this study in chapter two, Asset/ Liability management is the ongoing process of planning, monitoring and controlling the volumes, maturities, rates and yields of assets and liabilities. The basis of financial intermediation is the ability to manage assets (the use of funds) and liabilities (the source of funds). Asset/liability management is required on different levels; like interest rate management, asset management, leverage and liquidity management.

To measure the branch's financial performance by using this indicator, the researcher tries to calculate the following ratios. These are yield on gross portfolio, portfolio to asset, cost of fund and debt to equity ratios.

4.3.4.1 Yields on Gross Portfolio

Portfolio Yield is calculated by dividing total cash financial revenue by the period average gross portfolio. It measures the gross loan portfolio's ability to generate cash financial revenue from interest, fees and commissions. It does not include any revenues that have been accrued but not paid in cash or any non-cash revenues in the form of post-dated checks, seized but unsold collateral.

Table 4.8: Financial Management Ratios

Particulars	2005	2006	2007	2008	2009	Average
Yield on Gross Portfolio	10.90%	8.75%	5.78%	8.18%	10.48%	**8.82%**
Portfolio to Asset	77.29%	87.48%	81.15%	82.76%	82.52%	**82.24%**
Cost of Fund	2.29%	2.31%	3.00%	2.41%	2.77%	**2.56%**
Debt to Equity	32.13%	26.06%	15.88%	21.87%	33.45%	**25.88%**
Current Ratio	4.09	4.83	7.29	5.56	3.98	**5.15**

Source: Researchers' own computation from financial statement

Portfolio yield is the initial indicator of an institution's ability to generate revenue with which to cover its financial and operating expenses. So, it is an easy way for the branch to calculate the actual rate obtained and really received in interest payments on its loans. As per the figure 7 and table 4.8, the ratio (5.78%) in the year 2007 is the least value for the last five years; whereas, the ratios recorded in 2005 and 2009 with percentage of 10.90 and 10.48 respectively are the highest and considered as better achievements as compared to other years. However, as it compared to the lending interest rate of the institution (9.9-18%), the average yield on portfolio ratio (8.82%) shows less

achievement. From the result it is possible to say the branch lends some loans to the lower rate and certain amount of the loans is not collected (average repayment rate 80.30%). Because of the reasons, the branch couldn't achieve the intended yields. As it is designed to cover administrative costs, cost of fund, default and inflation, the branch should attain at least the minimum rate that is 9.9%. The implication of fewer rates than the intended rate is indication of inefficiency of the branch towards the portfolio yield and it is the risk to the branch.

4.3.4.2 Cost of Fund

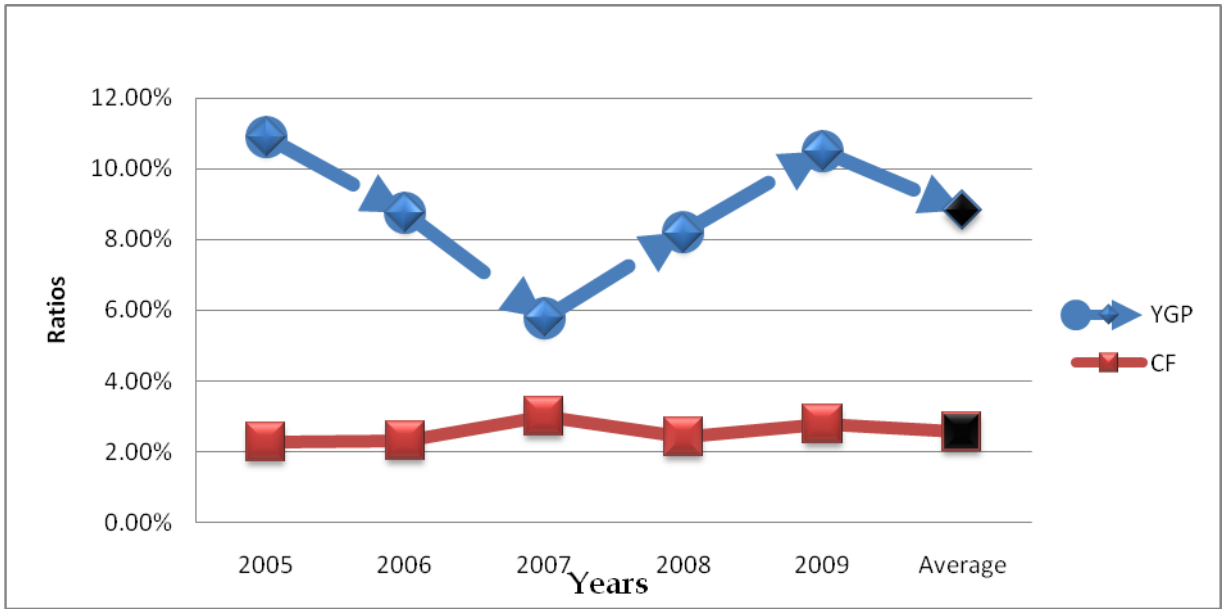
The Cost of Funds Ratio is calculated by dividing interest and fee expenses on funding liabilities by period average funding liabilities (average deposits) of the branch. It measures the average cost of deposits (all savings) in the branch. The cost of funds ratio shows whether the branch has gained access to low cost funding sources such as savings or not. However, this advantage can offset to some extent by the higher administrative cost of mobilizing savings.

Regarding this ratio, the lower value shows the better performance of the branch. As result, the branch performs well in 2005 as compared to other years. The trend of the ratio reveals variability through last five years, having the value of 2.29%, 2.31%, 3%, 2.41%, and 2.77% ratios in the years 2005, 2006, 2007, 2008 and 2009, respectively. Even though the variability of ratios, it looks like constant and stable. The average ratio is 2.56% for all five years as illustrated on Figure 7. The interest paid for saving/deposit/ is 4%; so when as compared to this value, the cost of fund indicates the better performance. The possible reason here is, the branch minimizes it cost of fund by relending its fund including profits attained at every time. The better achievement of this performance is important to the branch to balance the yield to portfolio rates that not enabled to achieve.

4.3.4.3 Portfolios to Assets

This ratio measures the productivity of asset. It is calculated by dividing gross loan portfolio to assets. It highlights how efficiently the branch structured. Loans are generally the most productive account on the balance sheet because they generate a high rate of financial income. The branch has to use funds to create assets that produce the most revenue. Therefore, maintaining a high percentage of assets in the loan portfolio is crucial to be productive and profitable.

Figure 7: Yield on Portfolio and Cost of Fund



On response of this, the branch scores 87.48% (the highest ratio) in 2006 and 77.29% (the lowest ratio) in 2005. The average ratio for last five years of the branch is 82.24% and which almost nearly equal to the last two years ratios as shown on figure 8. This means that the branch's asset in average of 17.76% (100%-82.24%) has been deployed on other than the loan portfolio.

In general, the meaning of the high value of the ratio is more important if and only if the branch does not utilize its assets to some other businesses activities which generate

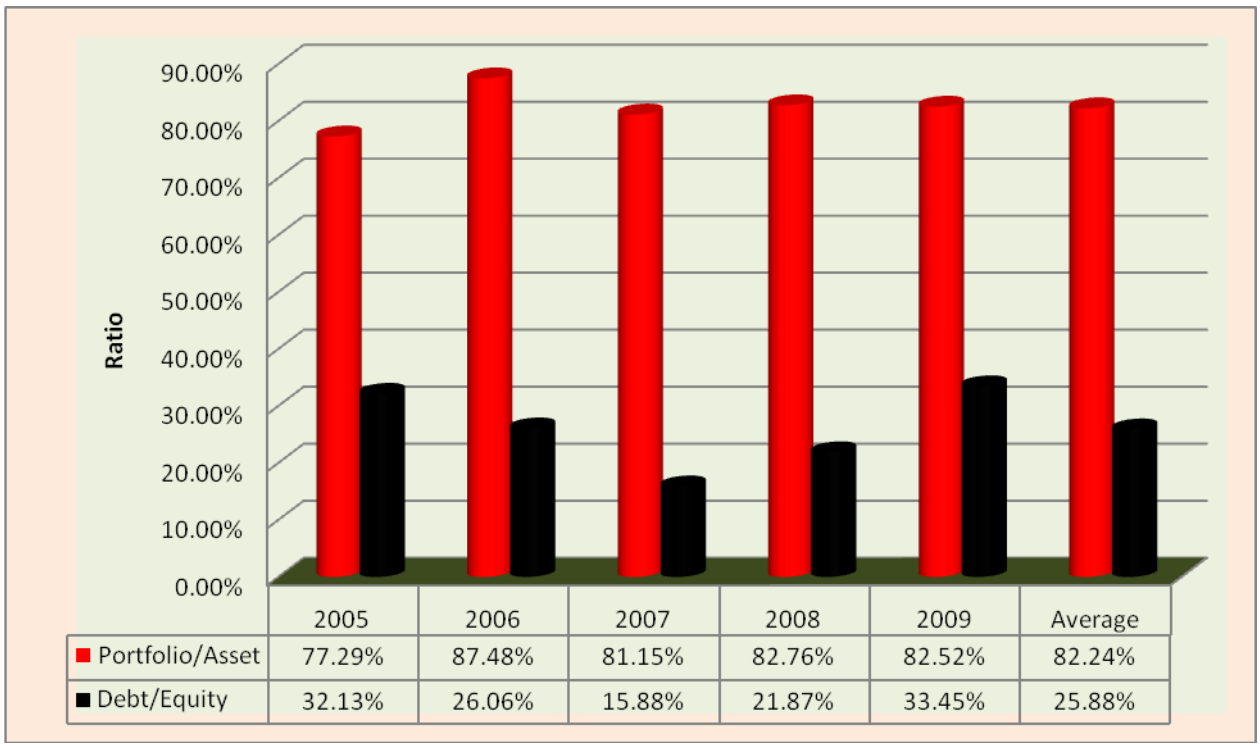
more income than the loan portfolio. Accordingly, the branch's total fixed assets to total asset is about 0.22% (average total fixed asset/average total asset) as it can be seen from the balance sheet of the branch attached at appendix part. There for, it is possible to say that the branch has deployed its assets efficiently in productive assets.

4.3.4.4 Debt to Equity

The Debt to Equity Ratio is called Leverage ratio and calculated by dividing total liabilities by total equity (i.e. it shows, the amount of debt per a Birr invested in capital). In other words, leverage is the extent in which debt financing is employed as compared to equity financing. Clients' savings and any commercial borrowings serve as a base for this ratio. At this point, the total liability includes everything the branch owes to others; like deposits, borrowings, accounts payable and other liability accounts. Total equity is total assets less total liabilities. Leverage ratio is the simplest and best-known measure of capital adequacy because it measures the overall leverage of the branch. Leverage ratio is of particular interest to lenders because it indicates how much of a safety cushion (in the form of equity) there is in the institution to absorb losses. The lower the ratio the safer is the branch. On the other hand, too low debt to equity ratio indicates inefficient use of equity (Adeno, 2007).

One can see clearly from the figure 8 that, the branch has attain the highest ratio (33.45%) in 2009 and which is very far from the lowest ratio (15.88%) attained in 2005. The average for the last five years the branch has attained is 25.88%. Too much debt to equity ratio in 2009 indicates that the branch have leveraged more when as compared to other years. However, in general, the branch's debt to equity ratio implies, the branch has too much less debts than equities in its financing structure. That means almost 75% of the asset is the branch's own resource; so that the branch has that much capacity to run the business without external resources. In the contrary, the branch should not forget the benefits of the external cheap source of fund especially saving from the customers.

Figure 8: Portfolio to Asset and Debt to Equity



	2005	2006	2007	2008	2009	Average
Portfolio/Asset	77.29%	87.48%	81.15%	82.76%	82.52%	82.24%
Debt/Equity	32.13%	26.06%	15.88%	21.87%	33.45%	25.88%

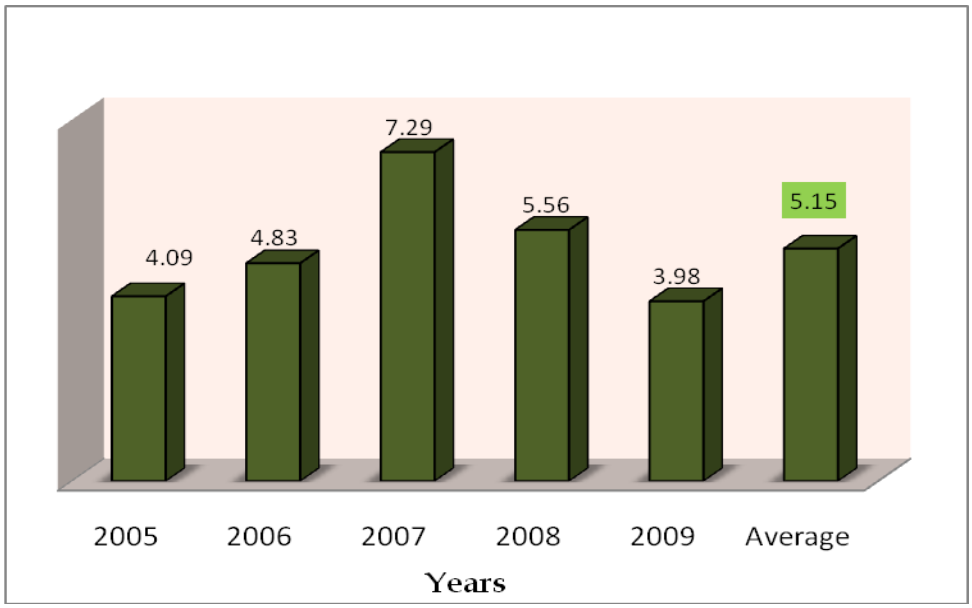
4.3.4.5 Current Ratio

Current ratio compares the current assets with the current liabilities. It is also known as 'working capital ratio' or 'solvency ratio'. As it is known in financial management, current ratio is categorized under liquidity ratio. Liquidity ratio refers the ability of firms to meet their short-term obligations. The ratios which indicate the liquidity of companies are Current ratio, Quick/Acid-Test ratio, and Cash ratio.

In this study, the researcher considers only current ratio as one of the financial management indicator because it is commonly used by commercial financial institutions. This ratio measures the liquidity of the current assets and the ability of the branch to meet its short-term debt obligation. Thus, it compares assets, which became liquid within approximately twelve months with liabilities of the same period. The higher this ratio means, the greater the short-term solvency of the branch. Conversely, too high current ratio is the indication of the poor management of current asset since it

is put idle. The current ratio of most successful MFI is ranges from 1:1 to 5:1 (Ledgerwood, 1999, p.257).

Figure 9: Current Ratio



As it shown on Figure 9, the branch's solvency is highest in 2007 with the ratio of 7.29:1 and lowest in 2009 with ratio of 3.98:1. The average current ratio is 5.15 times for the last five years. Concerning the trend, the ratio steadily increases at the first two years in the same way it drastically increases in the third year to the peak point. Finally, it starts to decline for the rest two years. In general, regardless of the variability of the ratios in the years under the study, the average ratio is favorable for the branch. However, the average ratio is at early fifth in excess of 0.15 times.

4.3.5 Profitability and Financial Sustainability

Profitability and sustainability are used to measure the financial performance of the institution in general. They reflect the ability of the institution to continue their operations and growths in the future by covering it costs with revenues generated from operation. Whether the institution working for profit or not, investors (depositors)

always prefer profitable and sustainable institution. Sustainability and profitability of the institutions can be measured and analyzed using different ratios.

Table4.9: Profitability and Financial Sustainability Ratios

Particulars	2005	2006	2007	2008	2009	Average
OSS	282.77%	217.81%	164.59%	213.15%	127.08%	**201.08%**
ROA	5.52%	4.24%	1.95%	3.68%	2.13%	**3.51%**
ROE	7.29%	5.35%	2.26%	4.49%	2.85%	**4.45%**

Source: Researchers' own computation from financial statement

Financial sustainability encompasses both financial self sufficiency and operational self sufficiency. The only difference between the two is the former (i.e FSS) need analytical adjustments to the inflation, subsidy (subsidized cost of fund and in-kind subsidy) and portfolio at risk especially loan impairment loss allowance and write-off.

Even if the branch cover all it costs and haven't yet subsidized by any organization, there are some unrecognized cost exist at main office level and need adjustments. These costs categorized under subsidized cost of funds (for instance, training given to the staffs of the branch, temporary transfer of employees from other branch or main office to the branch without payroll recognition of the branch as the researcher observes, and so on). Therefore, doing analytical adjustment is difficult at branch level in this moment since the branch hasn't recognized any costs covered by others.

By considering the challenges of adjustments at a branch level in this moment, the researcher focuses on only to the operational self sufficiency, unadjusted return on asset and return on equity ratios. The Table 4.9 shows the ratio of those elements in each year and the average of five years.

4.3.5.1 Operational Self-Sufficiency (OSS)

OSS measures how well the branch can generate sufficient revenue from operations to cover operating expenses and financing costs of the branch. It is calculated by dividing financial revenue by operating expenses plus financial expenses of the branch. In other terms, all direct costs are included in determining OSS of the branch.

Figure 10: Operational Self Sufficiency

Years	2005	2006	2007	2008	2009	Average
OSS	282.77%	217.81%	164.59%	213.15%	127.08%	201.08%
Break even point	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

The importance of this ratio is directly reflected negatively on the branch's net worth, if the branch being unable to reach at least break even point of OSS which is 100%. OSS of 1 (or 100%) is the first stage that the branch or any MFIs should reach in its way to long term financial viability. Unless or otherwise, the branch waits for donor compensation to keep on its operation; because, its equity will be reduced by losses. When the breakeven value of 1 has been reached, the focus needs to be shifted to the question of financial self-sufficiency.

Eventually, when one comes to the outcome of this measurement, the branch achieves OSS ratio above break-even points for years under the study. It performs the highest in 2005 with OSS ratio of 282.77% and it also performs the lowest ratio in 2009 which is 127.08%. The lowest achievement is due to the huge amount of doubtful expense recognition by the branch in this year and that undermines the income of the year. The average ratio for five years is 201.08%. Regarding the trends of this ratio, it is going decline through the years except in 2008 as it is depicted in the Figure 10.

In general, however, the branch performs operationally self sufficient though out the years under the study. This implies that the branch can cover its operating costs and interest on savings.

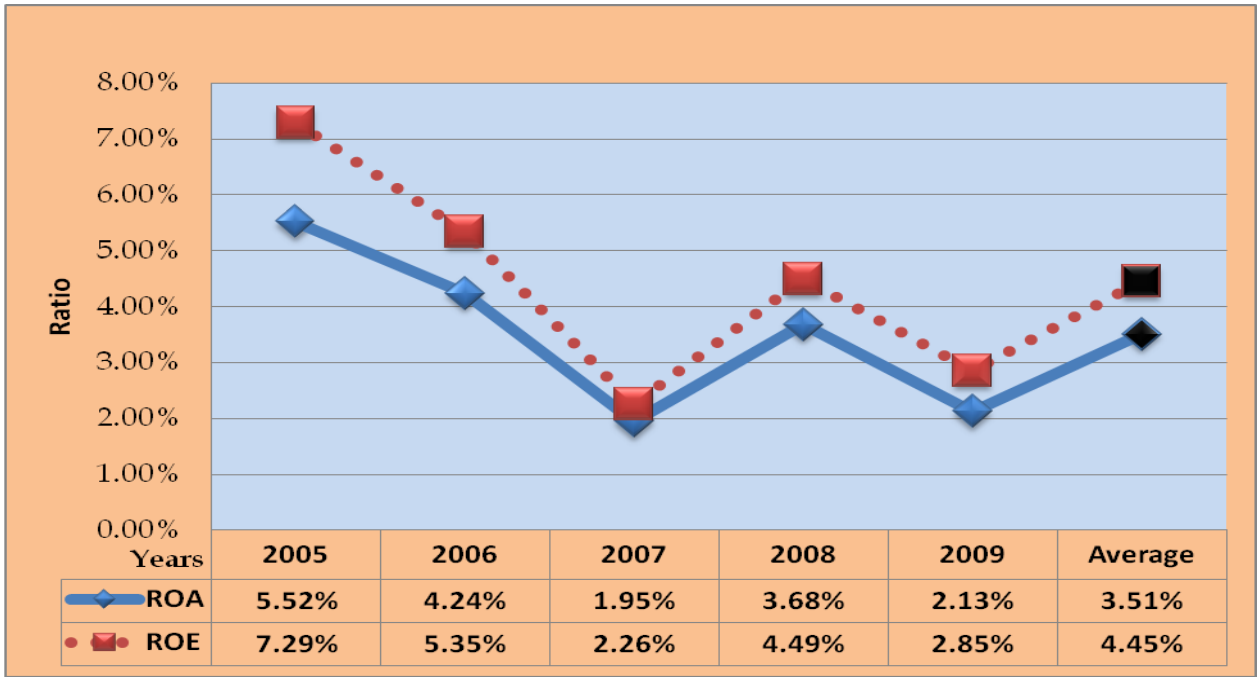
4.3.5.2 Returns on Assets (ROA)

ROA measures how well the branch uses its total assets (equity and liabilities) to generate returns. Its importance is for both internal management and external stakeholders to evaluate profitability of the branch so that the investors (depositors) build their trust on the branch's fate to operate in future. It is calculated by dividing the average net income earned by the branch to average amount of total assets. The higher the ratio means, the better the branch's performance.

As it illustrated on Figure 11, the average ROA ratio is 3.51% for last five years. The maximum value in 2005 (5.52%) is drastically decline to 1.95% in 2007. When the trends considered, the achievement is good in former two years as compared to the later years. Even if, certain improvements observed in 2008, it again declines in 2009. The one possible reason for the decline in the year 2009 is, due to the huge amount of the bad debt recognition in this year.

In overall, the achievement of the branch on profitability is encouraging as it attains an average of 3.51%.

Figure 11: Return on Asset and Return on Equity



Years	2005	2006	2007	2008	2009	Average
ROA	5.52%	4.24%	1.95%	3.68%	2.13%	3.51%
ROE	7.29%	5.35%	2.26%	4.49%	2.85%	4.45%

4.3.5.3 Returns on Equity (ROE)

The ROE measures the rate of return earned on net worth or equity invested. The higher return implies the better performance the branch achieves. It is calculated by dividing net operating income by average equity.

The performance of the branch as to ROE ratio as shown on figure 11 above, reveals good achievement in 2005, when it compared to other years. Its value in this year is 7.29%, but this value declines in the following two years; results 5.35% and 2.26%, consecutively. The branch shows improvements in year 2008; however, it again decline in 2009. Its average ratio is 4.45%. Regarding the trends concern, trends of ROE is almost the same as to the trends of the ROA regardless of the value difference. The possible reason for decline in 2009 is the same as described under ROA above. The achievement of the branch as regard to this performance is also the same as to ROA and it is favorable, because most of the empirical literatures conducted so far indicate more or less similar figures.

CHAPTER V
CONCLUSION AND RECOMMENDATION

5.1 Conclusion

Apart from its social mission, the branch has been serving as financial intermediary. In order to achieve its social as well as financial intermediary mission, it should first financially viable and operational efficient. Therefore, any effort regarding the performance of the branch should be measured time and again to have the exact position of the branch. Then after, it is easy for managers to take whatever decisions to the branch's sustainable and efficient performance.

Based on the discussion and analysis made in chapter four, the following conclusions are made on the evaluation of the financial and operational performance of the branch.

Concerning the outreach performance of the branch, the number of clients in terms of total client size shows significant decline especially in recent two years. Actually, this is happen due to decline of loan size as well as less or no services for new clients; because of government policy to combat inflation growth. The trend of female borrowers as compared to male is almost constant and balanced throughout the years except few variations. This indicates that female can borrow equally as male in the branch.

In spite of the fact that, Portfolio at Risk is not a headache of the branch since it is collateral based branch; it performs high portfolio quality of an average of 3.24% for PAR over 365 days. As it described by some literatures, this performance is considered as a high quality. The quality of portfolio is more pleasing for days 1 to 30 and 91 to 180 past due date, which have the portfolio at risk of only 0.41% and 0.73% respectively. However; the total PAR greater than 30 days is 6.83%. However; the quality of portfolio in terms of repayment rate (80.30%), it is too far less than the industry average (95%). Even if the branch do not have write-off policy explicitly, It write-offs the arrears with

greater than 90 days and above using different percentage and completely write -off for the days greater than 365 past due.

With respect to productivity and efficiency; Operating expense ratio, Borrowers per loan officer and Active clients per staff member are the main focus of the study of those measurements indicators. There are increments in operating expense, staff members and loan officers rather than they should have declined to the response of decline of gross loan portfolio and client numbers. This is because of the increments in services provided by the branch. The main additional services that the branch started on the letter periods of the study are:-

1) Collection of pay backs from the customers which were not exists at early years of the study.
2) Local money transfer services like a commercial banks and etc.

The effect of these services deteriorates the productivity and efficiency of the branch; because, services like collection of loan does not generate additional income rather its effect revealed directly on profitability of branch. However; the loan numbers declines over the last two years, the average outstanding loan size and the average loan disbursed size have positive result on the profitability of the branch.

From financial management point of view, especially asset and liability management is very important to the healthy operation of any business. Regarding yield on portfolio, the branch performs below the official rate of interest (9.9-18%); that means the branch hasn't been attained its intended yield on portfolio. The possible reason that the researcher found is the high amount of bad debt that has transferred to expense account. However, this ratio will be maintained in the future when the bad debt account paid back because of collaterals. On contrary, the branch performs efficiently on the cost of fund; it pays below (average 2.56%) the official interest rate (4%). This achievement is the result of the different businesses activities performed by the branch to generate revenue. Concerning the debt to equity and portfolio to asset ratios, the branch is

mobilizing an average of almost 74 %(100%-25.88%) of equity and about 82% of loan portfolio in its balance sheet. The branch also has the current ratio of an average 5.15%; which indicates liquidity is not the problem of branch (i.e. it has the ability to meet it short term obligation) and at the same time it is encouraging.

From profitability and financial sustainability angle of view, it is found that the branch is hopeful though its performance declining over time. It is operational self sufficient as it achieves an average of 201.08% and above breakeven through five years. Its profitability as measured by return on asset and return on equity is also performed well as far as it becomes positive profit.

By considering important contributors to ROA and ROE discussed so far in chapter four, the branch has the potential to achieve more than what it currently performing; if it were kept its client in constant growth. Moreover; the huge amount of bad debt account recorded as expense affects the returns very significantly.

All in all; what the researcher recognizes from the result of the study is, the trends of overall performance of the branch is declined especially in 2007 and 2009 years. However; the branch still has a good potential and it can performs more than what it currently performing after some corrections.

5.2 Recommendation

Based on the findings of the study, the researcher suggests the following recommendations by considering all important points in mind for successful performance of the branch in future endeavor.

Even if, execution of government policy is mandatory to the branch to the response of fighting against inflation, the branch should have at least some other mechanisms (like, minimizing the loan size) to retain its clients as an active client to the number it had before the last two years; because, it will be difficult to the branch to get back those clients in the future.

Though the ratio of Portfolio at risk is small, the amount in arrears what the branch has should be repaid back to the branch in total amount before it accumulated to a large value; because, its effect revealed on operating expense and then eventually on profits of the branch.

Too high expense of the branch understates the profit of the branch especially in last year (2009). The source for expense is the amount of bad debt, which is about 20% of total expenses of the branch. Therefore, this accumulated amount should be repaid back to the branch in order to reflex the true profit of the branch. As long as the branch is collateral based, the importance of collateral is under the question to the lenders otherwise.

When the number of clients declines significantly, the branch should immediately watch out their operating expenses, client per staff and client per loan officer to be cost efficient and personnel productive. Actually it may be difficult to fire and hire staffs now and then, but it is at least possible to maintain the existing number of clients and staffs. Otherwise, the branch should diversify its activities in some more other means to generate income. The best examples that the branch doing is local money transfer and pension payments on behalf of some other organization. The other potential activities like tax collection, underwriting, insurance, housing rental collection, and so on.

The branch should at least first maintain its yield on portfolio as per the intended official borrowing rate and secondly it should try its best to achieve more than the minimum lending rate (i.e. 9.9%). The other point here is regarding current ratio the branch should determine it fixed rate based on its transaction movement so that it use as a bench mark; because holding too low or too high current asset is not feasible for healthy business.

Concerning financial sustainability; financial self sufficiency is very important tool of measurement and it can be measured after some adjustments made. In order to measure this tool, the branch should record whatever the costs that covered by some other

organization including the main office. If and only if the costs expected it were covered by the branch, if it was not covered by other organization.

In general, the branch should observe the trends of their performance time and again using different measurement tools discussed so far. So that, it can take correcting measures in order to achieve its intended mission.

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APPENDIX

Appendix A: Consolidated Balance Sheet

Dedebit Credit and saving Institution Mekelle Branch I					
Consolidated Balance sheet					
For years 2005-2009					
Particulars	**2005**	**2006**	**2007**	**2008**	**2009**
Asset					
Current asset					
Cash on hand	122,605.61	461,374.66	833,545.78	1,661,982.94	1,176,890.18
petty cash	650	650	650	2,000.00	2,000.00
cash at bank	1,859,668.78	12,110.81	1,870,293.75	807,193.76	2,010,202.71
Staff debtors	3,319.85	65,560.80	8,422.62	16,403.86	9,930.70
Loan & Advance	22,021,341.31	38,702,207.52	62,643,315.62	78,223,408.55	73,539,333.18
Allow.for bad debts	-217,170.52	-836,816.95	-1,742,510.85	-3,156,379.55	-7,367,843.14
A/R from others	390,991.46	876,844.03	402,198.95	840,684.10	989,701.54
A/R from Home Office	4,090,800.33	4,809,699.24	12,944,331.41	15,774,259.37	18,387,085.20
Prepayments	19,000.00	-	58,300.00	96,800.00	153,172.00
Other than office sup.	10,224.25	17,477.05	8,691.87	6,828.77	12,025.20
Office supplies	42,216.91	65,069.88	59,359.24	52,535.01	29,262.22
Sub Branch account	5,702.44	3,902.44	900	1,950.00	-
Total current Asset	**28,349,350.42**	**44,119,079.48**	**77,087,498.39**	**94,327,666.81**	**88,941,759.79**
Fixed Asset					
Office furniture	148,752.67	149,552.67	150,452.67	227,497.40	233,667.58
Acc.depn.off.equip.	-51,000.01	-65,637.78	-74,008.98	-96,581.78	-114,411.92
Motor Vehicle	29,220.55	29,220.55	29,220.55	29,220.55	29,220.55
Acc.depn. Vehicle	-23,376.44	-29,050.55	-29,220.55	-29,220.55	-29,220.55
Office Equipment	27,402.03	27,835.94	29,460.02	67,814.12	71,896.54
Acc.Depn.off. depn.	-5,062.88	-7,732.18	-10,339.68	-17,106.06	-25,948.08
Computer	19,548.66	19,548.66	19,548.66	19,548.66	19,548.66
ACC.depn.comp.	-5,629.06	-3,583.92	-5,538.78	-7,493.64	-9,448.50
Total Fixed Asset	**139,855.52**	**120,153.39**	**109,573.91**	**193,678.70**	**175,304.28**
Total Asset	**28,493,205.94**	**44,239,232.87**	**77,197,072.30**	**94,521,345.51**	**89,117,064.07**
Liability					
Working Cap. saving	0	0	0	0	349,860.31
Personal Savings	2,955,078.98	4,298,759.52	4,107,420.63	8,020,678.11	10,805,303.98

Group Savings	2,892,824.01	2,687,314.63	3,342,220.93	4,348,375.29	4,197,588.81
Center savings	391,815.33	469,874.32	495,605.93	515,099.74	535,781.37
A/P branch	-	724.92	750	-	-
A/Payable	648,050.03	1,645,859.65	2,589,593.99	4,008,046.19	6,376,077.50
Other payables	31,043.29	39,481.29	27,821.29	55,931.29	53,731.29
A/p Sub branch	9,404.29	2,226.30	16,555.69	10,955.69	19,696.95
Total Liability	**6,928,215.93**	**9,144,240.63**	**10,579,968.46**	**16,959,086.31**	**22,338,040.21**
Capital					
Branch capital	19,992,771.40	33,217,230.79	65,111,608.19	74,079,166.74	64,877,888.02
Profit (Loss)	1,572,218.61	1,877,761.45	1,505,495.65	3,483,092.46	1,901,135.84
Total capital	**21,564,990.01**	**35,094,992.24**	**66,617,103.84**	**77,562,259.20**	**66,779,023.86**
T.Liab.&Cap.	**28,493,205.94**	**44,239,232.87**	**77,197,072.30**	**94,521,345.51**	**89,117,064.07**

Appendix B: Consolidated Income Statement

Dedebit Credit and saving Institution Mekelle Branch I					
Consolidated Income Statement					
For years, 2005-2009 G.C.					
Particulars	**2005**	**2006**	**2007**	**2008**	**2009**
Income					
Interest income from Loan	2,343,154.56	3,288,865.70	3,484,020.34	6,219,045.53	7,377,492.83
Interest income from Bank	0	0	0	0	0
Income from Aid	0	0	0	0	0
Commission	0	27,804.45	41,283.81	43,750.06	121,725.89
Other income	57,707.05	71,085.30	97,010.01	138,045.05	207,087.86
Total Income	**2,400,861.61**	**3,387,755.45**	**3,622,314.16**	**6,400,840.64**	**7,706,306.58**
Expense					
Inter. Expense Personal Saving	59,446.93	79,960.21	115,037.53	139,440.63	258,570.57
Inter. Expense Group Saving	73,034.42	79,299.57	106,726.56	151,679.13	160,946.19
Inter. Expense Central Saving	10,495.43	12,947.07	16,567.35	19,493.81	20,690.87
Total Interest Paid on Saving	**142,976.78**	**172,206.85**	**238,331.44**	**310,613.57**	**440,207.63**
Total Salary and Allowance	371,612.70	528,106.55	720,867.84	843,281.51	1,062,485.64
Total General Expense	314,053.52	809,680.60	1,157,619.23	1,709,853.10	4,302,477.47
Operative Expense	**685,666.22**	**1,337,787.15**	**1,878,487.07**	**2,553,134.61**	**5,364,963.11**
Total Expense	**828,643.00**	**1,509,994.00**	**2,116,818.51**	**2,917,748.18**	**5,805,170.74**
Profit(Loss)	**1,572,218.61**	**1,877,761.45**	**1,505,495.65**	**3,483,092.46**	**1,901,135.84**

Appendix C: Consolidated Operational Report

Mekelle Brach I							
Consolidated Operational Report							
For the years end 2005-2009 G.C.							
No	**Particulars**	**Sex**	**2005**	**2006**	**2007**	**2008**	**2009**
1	Number of Staff	M&F	44	47	55	58	70
2	N. of loan offer	M&F	8	9	9	11	14
3	Number of new clients	Male	2567	2479	2489	2579	1573
		Female	1967	2399	2083	3368	2237
		Cooperative	0	0	45	15	NA
		Total	4534	4878	4617	5962	3810
4	Number of active clients	Male	3728	3049	4014	2508	1700
		Female	3260	4119	5032	3202	2100
		Cooperative	0	0	45	10	55
		Total	**6988**	**7168**	**9091**	**5720**	**3855**
5	Amount of loan disbursed	Male	13,271,390.00	21,058,943.00	27,965,225.00	22,720,702.76	15,411,158.35
		Female	6,790,108.50	16,381,751.00	19,424,250.04	19,981,652.45	15,476,501.00
		Cooperative	0	0	4,649,851.16	1,520,773.16	4,387,408.12
		Total	**20,061,498.50**	**37,440,694.00**	**52,039,326.20**	**44,223,128.37**	**35,275,067.47**
6	Amount collected	Male	8,992,549.28	11,880,439.35	16,684,309.80	22,449,461.70	23,642,288.63
		Female	7,595,161.47	10,235,095.47	12,519,526.78	17,016,786.15	19,202,169.73
		Cooperative	0	0	7,853.18	697,240.54	+880,650.16
		Total	**16,587,710.75**	**22,115,534.82**	**29,211,689.76**	**40,163,488.39**	**43,725,108.52**
7	Loan outstanding	Male	12,885,523.92	23,419,634.59	34,140,616.02	30,651,295.47	24,110,473.74
		Female	9,135,817.39	15,242,572.95	22,907,534.96	24,315,459.94	12,017,206.29
		Cooperative	0	0	4,641,997.98	3,682,314.40	2,801,664.24
		Total	**22,021,341.31**	**38,662,207.54**	**61,690,148.96**	**58,649,069.81**	**38,929,344.27**
8	Total Clients with outstanding	Male	5,589	5,318	5,530	6,729	6,106
		Female	4,619	5,127	4,618	5,752	5,219
		Cooperative	-	-	45	60	40
		Total	10,208	10,445	10,193	12,541	11,365

Appendix D: Portfolio at Risk

Mekelle Branch I												
Consolidated Operational Report of PAR (delinquent)												
For the years ended 2005-2009												
Days	**service**	**No. Client**	**2005**	**No. Client**	**2006**	**No. Client**	**2007**	**No. Client**	**2008**	**No. Client**	**2009**	
1 to 30	loan	84	102,207.00	664	171,852.18	284	139,092.00	691	369,684.11	742	336,159.71	
31 to 90	loan	66	112,566.00	56	1,290,791.60	228	256,180.40	315	642,875.16	299	348,094.01	
91 to 180	loan	45	170,378.00	62	200,946.22	211	312,824.10	326	866,119.53	222	540,248.70	
181 to 365	loan	45	145,621.00	159	448,377.93	199	311,990.20	356	1,488,914.08	436	1,883,670.63	
>365	loan	104	152,125.00	165	497,042.76	706	1,358,535.00	928	2,536,598.37	1548	6,490,430.12	
Total		**344**	**682,897.00**	**1106**	**2,609,010.69**	**1628**	**2,378,621.70**	**2616**	**5,904,191.25**	**3247**	**9,598,603.17**	

Appendix E: Interview Questions

1. When did the branch start operation?
2. What are the main activities provided by the branch?
3. Does the branch get subsidy?
4. Does the branch make adjustments to any types of subsidy and inflation?
5. Does the branch has written off policy to the arrears and when?
6. How does the branch treat for arrears?
7. What is the minimum and maximum limit of loan to the clients?
8. What are the modalities to provide loan?
9. How does the branch treat for bad debts?
10. Why do the clients decline significantly in 2009?
11. What are the interest rates imposed to different types of clients and pays to savers?

Appendix G: Trend of write-off and Repayment Ratio