JIMMA UNIVERSITY
FACULTY OF BUSINESS
DEPARTMENT OF MANAGEMENT

DETERMINANTS OF MICRO FINANCE SUSTAINABILITY AND OUTREACH:

"A CASE STUDY IN JIMMA TOWN"

A RESEARCH PAPER SUBMITTED IN PARTIAL FULFILMENT OF THE COURSE RESEARCH IN MANAGEMENT

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Abstract

The central theme of this study is to analyze the micro finance institutions activities and their sustainability and outreach in the case of Jimma town and addressing the issues to the policy makers, through the analysis of necessary data collected from both sides of micro finance organizers and users.

As the case is in our country, crafting poor friendly micro financing services is key in alleviating poverty and its debilitating effects. The relevant data is gathered using observations, structured and unstructured interview, interview questionnaires and document analysis of Jimma town micro financing institutions. The collected data was analyzed using descriptive analysis technique and the MFIs activities sustainability and outreach, is evaluated. The outcome obtained showed that is not to say good.
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INTRODUCTION

The main objective of micro finance focus on the eradication of poverty which has much wider and deeper content than the policy for provision of employment, such a policy should guarantee that a person be able to control his own fate. Programmers narrowly focusing on employment generation issue miss this point.

The rationalization of rural credit (Micro finance) has triggered some concern over the fate of small farmer borrowers who are perceived to be generally un bankable. This mode of thinking believes that without loan targeting, concessionary interest rates those small farmers do not stand a chance among the loan applicants with collateral proven record and management expertise.

In many instances, it was disclosed by IMF that rural development has been held back in almost all developing countries by polices that favor industry over agriculture and urban over rural areas. Though traditionally the rural sector is viewed as abase for promoting rapid industrialization rather than as growth sector in its own right, governments throughout developing countries have recognized that the rural areas need modern technology and access to credit. Today, the notion that a more efficient and dynamic rural banking system that intermediate financial resources in the rural areas has been getting Momentum. The rural community have been subjected to severe problem of financial resources constraints for long lack of rural resources mobilization and linking informal self help group with banks has created the opportunity for informal financial institutions to exploit the rural community at large.
The current policy trend shift on the rural community made formal financial institutions and other donors organizations to target on integrated rural development more than ever before. To provide and improve the access of small farmers and the low income groups to banking services, the promotion of linkages between financial institutions and other rural financial intermediaries and the rural community has grown in importance.

Sofar, considerable progress has been made at micro and macro level in emancipating the rural community from a serious handicaps of disintegrated economic status to the one that mobilize the channel their resources to their best advantage and development.

The principal challenge is to build the capacity of micro finance institution to increase the outreach and sustainability of their operations, including their capacity to mobilize financial resources. For those with a predominantly welfare-oriented perspective, the challenge is to introduce, sound commercial practices in to their financial activities. This is achieved though exposure to and implementation of best practice techniques for managing risk, reducing administrative costs, and increasing revenue. The process of micro finance development is one of steady progress to ward higher standards of performance. The methodology to be used by the bank involves performance based grants (usually on declining or matching basis) for start up costs, introduction of management information systems, training for staff and management, and other institution building expenditures. Eligibility for such support should be based on achievement of specific performance in the areas of repayment, operational and financial
self sufficiency, and numbered type of clients reached. In addition building and empowering net work of micro finance institutions facilitates their coordination and learning from each other and builds their capacity to work together in their dialogue with donors and policy makers.

The significance of this research would be:

-- to identify problems with micro financing sustainability and outreach and to use these findings in attaining better levels of sustainability and outreach.

-- to evaluate the effectiveness of micro financing activities in Jimma town so that concerned agencies world use the information thus gained to better effectively manage micro financing activities in Jimma.

-- to use successful micro financing practices and philosophies identified by the researcher to better the performances of other micro financing institutions in the country. In other words, to use the research findings as forum of experience sharing.

Lastly, the objective of this study is looking for the key factors (Variables) that foster or impede micro finance sustainability and outreach in Jimma town. The research findings are hoped to be used by micro finance policy makers to better run micro finance institutions.
II LITERATURE REVIEW

2.1 Outreach and sustainability

To judge the success of microfinance programs, two basic criteria are used: outreach and sustainability (RavicZ; González-Z-Vega et al., 1997). There are two contrasting views about these interrelated issues. While some people argue that outreach today is sustainability tomorrow, others maintain the view that sustainability today is basic for increasing outreach tomorrow on the ground that a sustainable microfinance program attracts more potential borrowers by creating incentives.

According to von Pischke et al. (1997, p. 10), outreach is “the extent to which financial systems and their instruments reach the poor directly, increasing their participation in market processes and by this empowerment, in political processes.” They argue that since poverty reduction calls for empowerment of a large number of people, outreach must be the ultimate goal of microfinance programs. In similar line of thinking, Fiddler and Wester (1996) argued that the level of outreach is important in evaluating the objective of reaching the large members of previously under served low income people. Outreach is measured by the volume of annual lending and savings activities and the population it serves (RavicZ, 1998).

Khardker et al. (1995, p. 36) defined program sustainability to refer to “the ability of a program to continuously carry out activities and services in pursuit of its objectives.” They state that the Grameen Bank can only sustain its operations if it remains financially viable and the benefits received from program participation reduce poverty. Sustainability is a signal, both to program beneficiaries, banks, and donors agencies, about the success and strength of microfinancing activity.
relation to this Gonzale Z-vega et.al. (1997) argued that sustainability creates the image of permanency of financial intermediation there by attracting additional source of finance and increasing borrowers willingness to repay loans in expectation of future services. To measure sustainability, arrears, and default rates as well as subsidy requirements are considered (Ravicz, 1998)

There are four basic conditions for overall sustainability of a micro financing institution. These are financial viability, economic viability, institutional viability and borrower viability. A micro financing institution is considered as financially viable if it is able to at least equalize the unit cost of lending with the price (that is, the interest rate) it charges its borrowers. It is considered as economically viable if it is able to meet the economic cost of funds (the opportunity cost) used for credit and other operations with the income it generates from lending. When it has effective and well institutionalized procedures for ensuring administrations and management succession, a micro financing institution is considered institutionally viable. Borrower viability refers to whether the borrowers have achieved higher income flows over time, able to repay their loans (Khandker et.al. 1995)

Considering the importance of sustaining micro finance activities and in view of the fact that borrower viability is basic for sustainability, development specialists were concerned with micro finance impact assessment as well as identification of determinants of loans repayment performance. In relation to this khandker et.al (1995,p.73) argued that ‘the sustainability of a credit program ultimately depends on the viability of its, borrowers. This can be judged in terms of their economic and social welfare, their loans repayment performance and whether or not they drop out the program’
Micro finance impact analysis are concerned with identification of whether participants have more stable and higher incomes or not and whether financial intermediation has become efficient with the involvement of micro finance institutions in the financial sector (Johnson and Rogaly, 1997; Fiddler and Webster, 1986)

Johnson and Rogaly (1977) and Fiddler and Webster (1996) stressed the existence of methodological difficulties associated with the measurement of the impact of the assistance programs towards poverty reduction. While Johnson and Rogally (1997) consider the use of evaluation of changes in users livelihoods as a result of micro financing as a possible measure, Fiddler and Webster (1996) consider the possibility of comparing the income of participants to that of control group of non-participants, not forgetting the difficulty of controlling other variables.

In relation to this, McCormick and Pedersen (1996, p.170) argue that "the impact of credit for either seed or working capital can be measured in a number of ways. These include increased productivity in terms of sales and saving amounts, increased employment and improved process/service quality, among others."

While most researchers propose the descriptive approach, comparing household out comes before and after loan, some people (especially those who assess agricultural credit) model credit impact using a production function considering credit as one of the explanatory variables. It should be noted that both approaches are not without a challenge. Adams (1988) challenged these approaches by pointing out that the methods and assumptions used in measuring credit impact are
suspect and impact studies ignore saving activities. The argue that "it is a mistake to include loans as a variable in the production function with other inputs as most researchers have done" (Adams, 1988, p.357). The also indicates that it is difficult to sort the loan effects from the effects of technical assistance.

As khandker et.al (1995) put it, loan repayment performances are another indicators of borrower viability. Default rates should be lower for a sustainable micro finance. Researchers concerned with the loan repayment performance aspect of borrower viability, consider better performance in this respect as a basic condition for increasing the possibility of becoming self sustaining in micro financing while ensuring the long-term provision of financial services to users (Johnson and Rogaly, 1997; Ridler and Webster, 1996; khandker et.al, 1995)

While focusing on small holder credit, kulundu (1990) argued for better loan repayment to sustain credit facilities to pay interest on loan and to cover the a cost of administering credit khandker et. Al (1995, p.57) argue that "loan recovery enhances profitability by turning over loan able funds minimizing default," thus improving the viability of the financial institution. Hence, good loan repayment is necessary for efficient operation of micro financing institutions and for realization of funds for future lending. Most researchers use regression models for identification of the determinants of loan repayment performance, arrear rate or repayment rate being the dependent variable.
2.2 Reducing Rural poverty in Bangladesh: The need for credit

Research on the persistence of extreme rural poverty in peninsular Malaysia had suggested by 1983, that credit on reasonable terms to very poor small farm house holds could bring about a rapid and significant reduction in their poverty.

Sukor Kasim and others 1983 vo 11:132-134/

This was because such credit would remove one of the main obstacles to increasing the farm size of small farm house holds, i.e. shortage of working capital to rent/lease in agricultural land that was available on the market. Given that many of the small farm house holds in the peninsula had surplus labor, significant increases in farm size could result a substantial increases in total house hold income and, hence reduction of extreme rural poverty.

A detailed proposal for a pilot project to determine the effectiveness and potential of such a poverty reduction program was presented to the ministry of Agriculture in 1983/ Sukor Kassim and others 1983 vo 11: Appendix 5 = 3 It suggested that the benevolent loans be disbursed by the bank petunia Malaysia which did not have a loan scheme for renting/leasing in agricultural land officials of Bank could not think of any reason why the proposals was not a good idea, and it was accepted in principle by the Ministry Yet not happened.

In 1985, the senior author was in Bangladesh, and learned about the Grameen (Village) Bank. It disbursed small loans on loans on reasonable terms exclusively to very poor rural dwellers to finance additional income generating activities. Grameen Bank had started as an action research project nine years earlier in 1976. It had 295 branches serving 230,000 borrowers in more than
5,000 villages in the poorest districts of Bangladesh (Grameen Reader: 34). Impact evaluation studies of its loans had confirmed that Grameen was reaching its target group and that its loans had resulted in significant increases in income and standard of living (Ghi, 1984; Siddique 1984; Hossamin, 1984 and Rahman, 1986). More over its cumulative repayment rate was and is an excellent 98% and the bank was making modest profit (Yunus, 1986 a Yunus, 1986 b).

Grameen, in fact, was a generalized form of what had been recommended for very poor, small farmers in peninsular Malaysia. Not only did it extend benevolent loans to very poor, rural households to rent/lease-in agriculture land, but also for any other income generating activity. Could it be an effective means of reduction of extreme rural poverty in peninsular Malaysia? That was the intriguing questions that could be answered only by a pilot project.

PROJEK IKHTIAR/ freely translated as a projected to hold the very poor strive to overcome their poverty), was launched as a 2½ year pilot project to test the effectiveness of the Grameen bank Approach (GB'A) for the reduction of extreme rural poverty in the North west slinger area of the peninsula, commencing 1st January 1986 and ending 30th Jun 1988.

We attempted to follow closely the Grameen Bank approach to reduction of rural poverty because it works, Grameen Bank is one of the very few so-called "poverty focussed programmes" any where that actually has reached and benefited substantial numbers of the target group, we were aware that GB'S methods were a system of interrelated activities that had evolved overtimes in to a highly successful programmed to reduce extreme rural poverty; and we took a decision not to change any of the essential elements of this approach until we had to. In that way
our efforts would not fail because we had made unnecessary charges in advance, and we would know why we were making changes when we had to do so. In this we followed the good advise of professor Muhamad Yunus, the founder and still managing direction of Grameen Bank.

2.3 Results the program of projek IKHTIAR in MALAYSIA

Malaysia is indeed more fortunate than many other countries in the region in terms of the poverty problem. There are, however, still significant pockets of poverty in the country that seem to be resistant to the governments conventional poverty alleviation programmes in the past and present. It is in this context that project IKHTIAR offers a viable alternative which would complement the governments conventional credit programme designed for the poor. This innovative credit programme for the bottom poor has been successfully tried over the last 12 years or so by Grameen Bank in Bangladesh where today, over 600,000 poor people scattered all over the country, mostly women are participating and benefiting greatly from the loans they receive from the Bank.

Invariably, their income have increased substantially and invariably they have been religiously paying back their liens at an astounding repayment rate of 98% (impact Evaluation study projek IKHTIAR, 1988)
2.4 The Ethiopian Microfinancing Experience

In Ethiopia Microfinancing experience providing credit to rural agricultural households for purchase of agricultural inputs and tools have been practiced by the country major state owned Banks (including Development Bank of Ethiopia (DBE) and commercial Banks of Ethiopia) Credit schemes targeted at the urban of rural poor were non existence until recent years who NGOS starts providing credit to poor house holds in some parts of the country. The Ethiopian Government has laid down a regulatory frame work for the establishment of small-scale micro financing institutions by enacting proclamation No 40/96 that provided for the licensing and supervision of MFI's (micro finance institutions). The major purpose of putting in place an appropriate legal and supervisory frame work is to increase number of low-income clients in a sustainable manner. (Befekadu Degefe and Barhanu Nega, 1999/2000 Annual report on the Ethiopian Economy Volume 1)

It was obvious that this gap needed to be bridged with a new approach initiative started to flourish to this end in the 1990s. In 1990, an urban micro-financing scheme was initiated on a national scale with a credit agreement signed between the government of Ethiopia and the international development Association (IDA). This credit scheme aimed at financing the market towns Development project, planned to improve infrastructure in towns considered market and service centers for the agricultural hinter land and to alleviate poverty problems is selected urban areas of the country through employment generation and Income enhancement. The employment generation and Income enhancement components of the project was originally planned to be implemented in sixteen towns. The number of towns has currently grown to fifty-nine and is expected to increase in the future. (Befekadu Degeffie and Berhanu Nega, 1999/2000 Annual report on the Ethiopian economy Volume 1)
2.4.1 Credit delivery model

The credit delivery model draws on the experience of Grammen bank. Target beneficiaries is based on the credit agreement signed between IDA and the government.

The agreement stipulates that at least 50% of the beneficiaries by women and house holds with a monthly income not exceeding Birr 50. However, the letters criterion had to be changed because of the devaluation that followed the reform in the country. As a result households with monthly income below for 100 or 200 (depending on the situation in a specific town or region) were also include in the scheme.

The responsibility of screening promoting, Organizing and licensing micro enterprise operators in co-operatives consisting of members not exceeding 30, rests with regional/ with respective Zones and Woredas) trade and industry bureau. The bureau have to prepare business plan for every member of the co-operatives. The DBE (Development Bank Ethiopia) then extends loans to those organized accordingly. Individual borrowers are required to deposit 10% of loans received as part of credit gurantee and saving schemes, the maximum loans size grew from Birr 1000 at the beginning to birr 5000 currently. For loans above Birr 200, co-operative membership is required for eligibility and additional appraisal technique is used by the organizers (Befekadu digeffie and Bernamu Nega, 1999/2000 Annual report on the Ethiopian economy. Volume 1).
2.5 Coverage and performance

According to information from DBE the scheme now covers four regions namely Amhara, Tigray, Oromiya, SNNPR. The fund is made available by the government and IDA. While the former contributes 20% the latter covers 80% of loans to a micro entrepreneur. Accordingly up to end of 1997, IDA made available Birr 13.8 million while DBE contributed Birr 3.5 million. In total Birr 17.3 million was made available. This fund is required to revolve With the revolving size of fund, the total loan amount disbursed to over 34,000 beneficiaries from commencement of the scheme in 1994 up to December 31, 1997 amounted to Birr 50.2 million 11.7% was disbursed to micro enterprises in Tigray, 52.6% in Amhara 21.8% in Oromiya and 13.8% in SNNPR.

The reported recovery rate for 1996/97 was 92% over 65% of the beneficiaries are women. In addition to these good performance indicators, the scheme has also improved its outreach over the year and has increased the size of loan made available to an individual borrower from Birr 1000 to Birr 5000. The other important feature of the scheme is its success under a situation where two independent bodies (DBE and regional trade and industry bureaux) successfully cooperated to implement the scheme.
Sofar the above reviews shows the studies which have been conducted on the general overview microfinance in Ethiopia. Thus these studies do not cover the Determinants of microfinance sustainability and outreach in particular areas like JIMMA/ that is why research initiated on these key issue. (Berfekadu Degeffie and Berhanu Nega, 1999/2000 Annual report on the Ethiopian economy volume 1).
III. MATERIALS AND METHODS (METHODOLOGY)

All the micro finance institutions focus on poverty alleviation, therefore my target group of the study is that the poor people who are organize in micro financing under ministry of trade industry and tourism office association in Jimma Town. In addition, the staff of the micro finance institution who are responsible for these activity which is found in Jimma.

3.1 Materials (Data)

The area of the study was concentrated in both micro financing institution and micro enterprise cooperatives residing in Jimma Town. And also the population of the study are two types. These are employee of MFI who are responsible for micro financing activities in Jimma town and clients of MFIs. In Micro financing activities there are a number of factors that affect the operations of the MFIs, among other variable. This study focus on the following points one by one.

- a) The Micro finance institution and its management.

It shows the extent on which the management system of micro finance institution assist the activity of the organization. i.e Quality of the management of the micro finance institution which involves producing, accounting manual and installing proper accounting system, internal control manual and regular conduct of internal audit, credit manual, saving manual, administrative and human resource development manual, annual external audit the management bodies academic and experience competence and also the existence of a clear regulatory frame work which promotes the delivery of financial service to the poor. Therefore the role of management in achieving the goal of the MFI is very essential, so the information which is found in MFI, management bodies
very essential, so the information which is found in MFI, management bodies which are found in Jimma is helpful to understand the point. The related data was collected by structured and unstructured interview method.

b) The legal atmosphere

The legal atmosphere concerning financial policy which is designed by National Bank of Ethiopia can directly or indirectly affect the activity of Micro finance institution. Because of micro finance institutions have been registered under the National Bank of Ethiopia and are delivering financial services. Therefore the legal atmosphere which is related to financial policy have an impact on the activities of micro finance institution because the result of inadequate legal frame work and the lack of appropriate instruments for managing risk lead to the micro finance institution activity in dangerous situation. The related information was collected by structured and unstructured interview from Jimma MFI office and head office in Addis Ababa.

b) The legacy left by traditional money lenders

The traditional money lenders participate in micro finance activity in informal way and they are not registered under National Bank of Ethiopia. The traditional money lenders like ikub, Arata, etc they have no legal frame work for their activity concerning the amount of interest rate and in what way they collect money from their borrower. Therefore, the impact of this problem leads to the clients whether to participate or not in micro finance institution, that is why the relevance of this point is very essential and helps to know the user attitudes towards this point therefore my study focus on this. The related information which is useful for the study was collected from the clients by the method of interview Questionnaire.
d) Entrepreneur skills of clients

The level of entrepreneur skills of clients is not measured simply because it has no measurements to measure the performance of the clients but we can evaluate the skill clients based on the activities of clients engage themselves, these indicates how the clients can create new activities to improve the livelihood of their economic status. The entrepreneur skills of clients can assist for micro finance institutions need to expand their outreach and develop sustainable operation and also clients participating in this type of activities have a great role in achieving the goal of the micro finance institution. Therefore, the study focus on this point, the related information was collected from the clients by interview Questionnaire method.

e) Natural factors

Eventhough controlling the influence of natural factors is not an easy task, but their impact can be seen on different activities. When we say Natural factors like unseasonal rainfall, drought etc. These natural factors influence the micro finance activities because the client may participate in agricultural activities, when rainfall is not getting properly to the farm the expected result from the activity will become risky, these result also influence the activity of micro finance institution so, this point is avery crucial point for achieving the expected result from the clients, the related information which is necessary for the point was collected from the clients by interview Questionnaire method.
f) Infrastructure facilities.

It is the core point of in every general economic development of the country. The development of infrastructure like road, electric power telephone etc assists to the activities of micro finance institution because it is helpful to communicate one area of activities to another area and to exchange resources from one area to another and also helpful to expand the activities of micro finance. Therefore these facilities also assist the micro finance institution activities to takes place efficiently and effectively. The information, for this point is essential for evaluating the activity. So that, the related information was collected both from micro finance institutions organizer and clients by structured and unstructured interview, and interview Questionnaire methods respectively.

3.2 Method of data collection and analysis

In general, the above points which are specified in the previous (i.e a-f) are deemed to express the relevance of information which are used for the study and their source of information. The approach that used for collecting information's are interview questionnaire, document analysis, structured or unstructured interview. That is, for those micro finance institution responsible individuals used unstructured and structured Questionnaire and for those clients or users of micro finance used interview questionnaire.

In Jimma town there are 15 Co-operatives or associations who are organized under micro finance institution office. Since they are homogenous group, 3 association was taken in order to carry on the study. The three association selected by sampling technique method in convenience way that, they almost constitute similar members of micro-enterprise co-operatives characteristics of the other cooperatives.
From 15 association by using both probability and non-probability sampling technique 25-30 users of micro finance was selected and ready to answer a questions based on already prepared interview Questionnaires. As the data is Qualitative the analysis also descriptive analysis technique. That is for micro finance institution organizer the data collected by by structured and unstructured interview method and analyzed both descriptively and comparatively to understand the activities of micro finance institution sustainability and out reach both in the side of organizers (lenders) and users, and to make detailed investigation.
IV. LIMITATION OF THE STUDY

Unavailability of enough reference materials and documents to the study was the major problem encountered in the study. Added to this, Unwillingness of the MFIs to give information, especially in the Head Office Addis Ababa, has limited the scope of the study. Moreover, the user of microfinance (borrower) is not willing to give enough information at the time of interview.
V. RESULT AND DISCUSSION

The micro finance institution (MFI) and its management, the legal atmosphere, the legacy left by traditional money lenders, entrepreneur skills of clients, and environmental conditions like natural factors and infrastructure facilities have served as yardsticks for this research endeavor in attempting to answer how far the MFI of Jimma town has succeeded in meeting the dual objectives of sustainability and outreach.

a/ The micro finance institution and its management

The management of micro finance institution play a great role in achieving the goal of the activity carry on by the institution. Because, of it is the organizer of that activity and also effectiveness and efficiency of the MFIs activity depend on by the management, therefore, management is the vital part to assist for sustainable activity of the institution. When we say management, the quality of management their experience and competence related to the activity of the micro finance institutions and also installing proper accounting system administrative and human resource development etc. The respondents assured that the management staff of micro finance institution are highly equipped and have experience for the activity they perform and also they have got training for different times, related to the MFIs activity. However, in reality, their accounting system is not done efficiently by qualified worker and they use manual system for recording accounting information which leads to frequent error in recording system. Even though, there are experienced employee, in the institution their number is not enough to perform the activity of the institution efficiently. Some members of the management waste too much time and energy in politics, risking their very responsibility to suffer and also the management information system is not performed according to the demand on it. As a result the information flow system...
is not properly made and it is not possible to get enough information as needed. This may endanger the activity of the institution and hence to achieve the objective. In reality, the effectiveness of any organization depend on the management system, therefore, its contribution for the success of an organization mission will highly rely on the management. From this what can be understood is that the efficiency and effectiveness of the management system of MFIs is a very decessive part for the sustainability of the activity.

B/ The legal atmosphere

The national bank of Ethiopia (NBE) is entrusted to regulate and supervise MFIs by proclamation number 40/1996. To encourage the establishment and operation of MFIs, the government of Ethiopia issued proclamation on licensing and supervision of such institutions. The legal atmosphere concerning financial policy which is designed by the National Bank of Ethiopia is not affecting the activity of MFIs, the reason given by the respondents (MFIs) is that, according to the law of National Bank of Ethiopia, a debtor has to have a collateral, to get borrowing, thus, due to such policies it is impossible to the poor people to get money from the banks.

Due to the above reason professor Mohammed Yunus a Bangladesh citizen introduced a system of micro credit for the poor which allows the propertyless to be financed through collective agreement where a person to person be a guarantee to get the credit having individual and collective accountability and responsibility. The premises from which Mohammed Yunus introduced micro finance is any person who gain money or in credit or a financial support can engage him self by establishing self employment. Hence, through time by doing planned business activities, through time a poor borrower with out collateral can repay the money he borrowed individually and collectively. Hence as far as micro credit is possible
and their exist financial institution who gives to the poor it is possible for the poor to make self employment and social change. However, in the policy of micro financing there is no collateral as to secure property from the borrower as laws regulate by the National Bank as rich borrowers or investors. Therefore, from the respondents what can be understood is that MFIs create potential to the poor people to create personal property and can be able to borrow from commercial Banks. The money borrowed by the institution is not funded from national Bank of Ethiopia, it is supply from, world Bank, NGOs international developmental association and others. Therefore, the money is not subject to the financial policy set by the national Bank, rather it is under control of Ethiopia development Bank, and it is revolving fund. Therefore, it is not a critical issue for the sustainability and outreach of the MFIs because of this there is no legal atmosphere that influence the operation of MFIs with regard to the institution and clients.

C/ The legacy left by traditional money lenders

The traditional money lenders participate in micro finance activity in informal way by borrowing money to the people. Though, they have no legal framework for their activity, their operation has neither logical, structure nor consistence, rather it is on the basis of the demand of their feelings. For example, in the amount of interest rate, period of payment and other things determined by themselves or based on their needs. Such traditional approach of lending may create negative attitude towards the clients participation in the micro finance institution. Accordingly all respondents participated in traditional money borrowing. However, there is no any legacy left by them or there is no any negative attitude develop towards their participation in micro finance institution. More over 96.67% of respondent believe that borrowing money from micro finance institution is advantageous. The reason is that it is an initial investment for those
who have no money to do the business, thus, it help to improve the living standard of their family, like to cover medical expenses, educational expenses, and other expenditures. Very small portion that is 3.3% on the other hand think that it is not help full borrowing money. How ever, they have no negative attitude to wards borrowing money, their opposition is related to the amount of money received from the lender as it is not enough to do the activity effectively and efficiently.

The surveyed respondents attitude towards the activity of traditional lender and micro finance institution activity is summarized in table 1

Table 1 – The respondents comparison between micro finance institution and traditional lenders

<table>
<thead>
<tr>
<th>Differences</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of interest rate</td>
<td>28</td>
<td>66.67</td>
</tr>
<tr>
<td>Period of payment</td>
<td>8</td>
<td>19.05</td>
</tr>
<tr>
<td>Rules and regulations concerning lender activity</td>
<td>3</td>
<td>7.14</td>
</tr>
<tr>
<td>Collateral agreement</td>
<td>3</td>
<td>7.14</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td>100</td>
</tr>
</tbody>
</table>

From the above table the main difference between traditional money lenders and micro finance institution, for the majority of respondents (66.7%) lies on the difference in the amount of interest rate. The amounts of interest rate charged by traditional money lenders is higher than the MFIs. That is, the amount of interest rate charged by MFI is 12.5% but in traditional money lenders greater than that of MFI. Because, the traditional money lenders objective is to get high income from the borrowers, which implies the risk ness of the activity.

On the other hand for 19.05% of respondents the difference between these institute lies on period of payment. The respondents revealed is that the period of
payment is known and fixed when they borrow from the micro finance institution, as compared to traditional money lenders. The traditional lender may want the money before the fixed due date and may penalties exist, when the borrower repay the money after the due date. Moreover, the penalties fixed by the lenders based on its own willing without any rules.

From the above table, (table 2) 7.14% of respondents provide their differences on rules and regulations concerning lender activity. In MFIs the amount of interest rate, the period of payment and the governance structure of the institution and, other things, have rules and regulations. However, in traditional money lenders they don't have any rules regulation concerning their activity, the activity carry on depending on the interest of the lenders, therefore, their activity support to the MFI in order to have better performance related to lending activity. On the other hand, 7.14% respondent's think that the difference between traditional money lenders and MFI lies on collateral agreements. Respondents thinks that when borrowing from the micro finance institute they are not asked any property for warranty or they don't asked perform a collateral agreement. But when borrow money from traditional money lenders, the first requirement is that to provide some kind of materials like, tape recorder, bed, Radio, etc or property to stay on the lenders hand till the payment is done, otherwise, it can not gain money from the lender. The traditional money lenders activities concerning to lending activities have either positive or negative impact to participate in MFIs. However, from the respondents replied is that they do not any influence from traditional lenders that do not participate in MFIs rather they create encourage for them to participate in the MFIs because of their influence regarding to the lending activities. This implies traditional lenders create important influence to the activity of MFIs. The positive attitude created by the clients is very essential to expand the outreach for the MFIs activity, that is the number of clients participate
in the activity to become increase and the coverage of the activity also to become wide. For example, when the program started that is in 1991 E.C the number of clients organized in association is 8, at present, increased by 7, there for the total number of association to become 15.

D/ Entrepreneur skills

Entrepreneur skills of clients can be improved by giving training related to their skills. In many micro finance programmers, there is an intimate linkage between training and credit. The benefits of linking credit with training are many from the perspective of micro lenders the most important effects are self-selection and capacity building. While many people will want to borrow, fewer are prepared to undergo training in order to become eligible for credit. Those who are, evidence suggests are those more determined to run their business, and to run it well. Further, most entrepreneurs are unaware of their skills deficiencies, and therefore they are unlikely to seek training voluntarily when access to credit is conditional on undergoing training. many come to appreciate the value of training.

Training can be offered basically in two forms: there is vocational training to equip entrepreneurs with technical skills needed for running a service or manufacturing enterprise, and there is business training to help entrepreneurs to cope with the managerial aspect of running their own enterprise. Technical skills training requires more generous funding and takes much longer time. Business skills training can be fruitful on a very basic level, and is often urgently needed prior to set up. In many cases, both types of training are offered jointly, and both lead to better self selection and enhanced survival rates of new enterprise. From the lender's perspective, this has the benefit that more borrowers will succeed in their business plans, and more will be able and willing to repay their loans. From this what can be imagined is that, training helps borrowers to improve entrepreneur skills. However, from all of the survey respondents have not got any
training to improve their entrepreneur skills. From this, what can be understood is that the sustainability and outreach of the MFIs to become endanger because of the clients have not got training with regard to their activity. Training improves the clients in order to have better performance for the activity, that is their entrepreneur skills becomes improved related to their activity, by this reason they become problem solver, when a problem occurs in their activity. More over, it improves business skills there fore the sustainability of MFIs activity can be come in good position related to the clients. On the other side it motivates the clients to participate in the MFIs this assist to expend the outreach of the program.

e/ Environmental factors (Natural factors and infrastructure facilities)

Any business activity is carried out in a given environment. That is, there is an interaction between the business organizations and the environment within which it operates. Because of interaction to the environment whenever there is change in the environment, it will effect either positively or negatively the business operates. Natural factor for instance like unseasonal rain fall, drought etc occur, It can easily affect the business operation. Environment refers not only natural factor but also other factors like infrastructure, road, electric power telephone, different institutions like, financial, health and others. These are also important influential factors for the operation of the business activity.

Environmental factors, therefore, will have an impact on micro finance activity on both lenders and borrowers because every activity is related to environment, thus, a conducive atmosphere environment is crucial for every activity. This indicates the fact that, in order to achieve the goal of micro finance activity the environmental factors should be taken in to consideration. From the analyzed date, respondents identified different environmental influences. For majority, 83.33% of respondents environment did not create any kind of influence in their activities. Even though the majority of respondents did not acknowledge
the environmental influence on their activities. In reality, the respondents influenced by environmental factors, when there is drought, electric interruption etc occur, because they are one part of the environment. However 16.67% respondents think that environmental factor creates different kinds of influences in their activity. The kind of environmental influences and their relative distribution and percentage level are shown in the table below.

Table 2- kinds of environmental influences and their relative frequency and percentage.

<table>
<thead>
<tr>
<th>Kinds of environmental influence</th>
<th>Frequency</th>
<th>Percentage(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Drought</td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>- Electric power interruption</td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>- Un availability of raw materials near to work</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>place</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>100</td>
</tr>
</tbody>
</table>

From the above table (table 2) we can see that 40% of respondents replied the environmental influence that affect their activity related on drought. Drought is one of natural factor that influence for every activity, takes place on the environment and also it is not easily controllable, because of this it can not be avoidable in short period of time. Respondents affected by natural factor, their activity rely on selling agricultural products like crops, vegetables etc. On the other hand 40% the respondent influenced by electric power interruption, this indicates that for those who are participate their activity related to electric power supply, like metal work, wood work etc. Infact, sometimes the electric power supply interrupt by different reasons, even though, this is one of essential infrastructure to assist economic development of any country. From the table 20%
respondents think that unavailability of raw materials near to work place, this is mostly a problem of respondents who are participate their activity in wood work. This happen because scarce resources of the raw materials and also the majority of the respondents participate in similar task, that is in woodwork. By making different business plan it can be minimize the environmental influence like by changing their activities related to market condition. Environment is dynamic, when ever there is change in the environment it affects all individuals who are living in the environment, because there is an individuals. There for, the influence which comes from the environment affects not only the MFIs activity but also what ever activity carried on the environment, so, the sustainability and out reach of the MFIs activity is also affected by the environmental factor.

**Problems encountered by participants of Micro finance institution**

In order to carry out any activity effectively and efficiently, there must be smooth environment or conducive environment for the activity. Other wise the activity becomes endanger. More over in order to create smooth environment for the activity carried on, you have to find out the problem and give corrective action for the problem. Repeat assessment of problem encountered in your activity and striving for solution is great importance for improvement of the activity, or it provides to improve the sustainability and out reach of the program. Even though, the problem faced in every activity is different and the intensity of the problem to affect the activity also vary. Some problems directly affect the working condition of the activity and on the other hand some problems are not critical for the activity of the organization. However , frequent assessment of the problem faced in the organization and taking corrective action is a very important thing for the achievement of the objective of the organization. Thus, In MFIs the respondents revealed their problems, among those 46.67% of respondents replied that no
problem encounter in their activity, on the other hand, 53.33% respondents revealed problems encountered in their activity, displayed in the table below.

Table 3- kinds of problem and their relative frequency and percentage.

<table>
<thead>
<tr>
<th>Kinds of problem</th>
<th>Frequency</th>
<th>Percentage(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital shortage borrow from the micro finance institution</td>
<td>12</td>
<td>44.4</td>
</tr>
<tr>
<td>Infra structure problem like interruption of electricity</td>
<td>2</td>
<td>7.5</td>
</tr>
<tr>
<td>Loss of market</td>
<td>6</td>
<td>22.2</td>
</tr>
<tr>
<td>Loss of working place</td>
<td>1</td>
<td>3.7</td>
</tr>
<tr>
<td>Loss of raw materials</td>
<td>5</td>
<td>18.5</td>
</tr>
<tr>
<td>Seasonality of market</td>
<td>1</td>
<td>3.7</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

From the table 3 we can see that the major problem capital shortage which attribute, 44.4% of the total kinds of problem faced by the participants of the MFIs, this indicates that the respondents give more emphasis for this problem and also the amount of money gained from the MFIs is between Birr 500 to Birr 5000. The minimum or the maximum amount of money borrowed from the institution depend on the way the borrower participate in the task. From this what can be understood is that either the loan policy in the institution is not suitable for the borrower or the borrower is not participating in the activity according to their skills and ability. In other way, the problem specifies that, the MFIs collect tangible information, about market condition and the borrower activity, before borrowing the money to the individual. On the other hand, 22.2% of respondents revealed the
problem encountered in their activity, a loss of market. That is, the borrower could not get market to sell their products. From this what can be understood is that the borrowers participate in homogenous task, the MFIs is not prepare efficient business plan based on the market demand, to the borrower. On the other hand, the borrower sell their product in the same market, that is Jimma, by this reason this may create market saturation or the borrower can not sell their product to another market. Therefore, the totality of this points leads to the borrower loss of market. From the fact, majority of the borrowers participate in the same activity like, metal work, woodwork, selling of agricultural products and others activities.

More over 18.5 % of respondents revealed their problem as related to loss of raw materials. This indicates that, most of the borrower activity specify, homogeneity of tasks that means, most individual participate on the similar activity. On the other hand, their potential to get raw material from other market is limited, or they have no enough money to buy the raw material in the market with respect to the other competitors. In fact, most of the borrower participate in similar activities create great contribution for the loss of raw materials and also for scarcity of raw materials.

The other 7.5% of respondents their problem lie on infrastructure problem like interruption of electricity, who participate in an activity related to the electric power supply. However, it is not very challenging issue because it does not frequently happen. On the other hand 3.7% of respondents their problem lie on seasonality of market and also 3.7% of respondents think that their problem related to working place. However, both of the problems are not highly affecting their activity because they can minimize its influence by taking different mechanisms like changing their task, that is by shifting from production of seasonal products to another production activity, for those who faced the problem by seasonality of market condition. Of course, the number of respondents affected
by the two problem, that is seasonality of market and loss of working place are insignificant relative to the other problems. However, the problems help to the MFIs to create awareness concerning this point and also assist to know about what type of problem happen during implementation of the activity.

In general the above problem mentioned by the respondents have paramount for the MFIs tasks, because, they indicate the sustainability and out reach of the activity. From the above problems, the majority of respondents emphasize on the problems, like capital shortage. That is the amount of money borrowed from the institution is very small, this problem affect the sustainability and out reach of the MFIs, because on the side of borrowers, it may decrease the number of users for the institution, this influence the sustainability of the institution. On the other side, because of decreasing the number of users, it may limit the out reach of the program implementation.

The other problem faced by the respondents is loss of market, this is also another influential factor for the MFIs activities on the sustainability and out reach of the program. The reason that, when the clients can not sell their product, they can not repay the money to the MFIs. Hence, it affects the MFIs activity, there fore, it endangers the sustainability of the program. On the other side, because of unavailability of market the number of users decreases. So, it creates difficulty for expansion of the program.

Unavailability of raw materials also another problems for the users of micro finance institutions. Because, it directly affects their activities and also affect the tasks of MFIs. That is, unavailability raw materials leads to the clients not performing their activity effectively, by this they do not fulfill the expected requirement by the MFIs. By this reason the tasks of the MFIs is going to be risky, more over, the program implementation of the MFIs is going to be endangered, that is the sustainability and out reach of the program.
VI. CONCLUSION

Almost all micro finance institutions focus on making credit to urban and rural unemployed, under employed and small entrepreneurs. They emphasize first, in developing income generating activities by providing critically needed credit facilities and technical support to the poor and then on saving mobilization. Like their counterparts in other parts of the world, the mission of MFI's operating in Ethiopia, is poverty eradication by providing money to the poor in order to create self employment.

So far, discussed the micro finance institution performance based on the variables which mentioned earlier and the findings endeavors to evaluate the sustainability and out reach of micro finance institution activities in Jimma town.

The overall performance of MFI's can not be said good, as the result shown, attributable to some major factors in the activities of MFI which might have affected the effectiveness of the institutions activity.

Such factors include:-

- Some members of the management waste too much time and energy in politics, risking their very responsibility to suffer.
- Some the management staff are not sufficiently experienced and related to the activity performed by micro finance institution
- The institution have no a well established financial department or unit that utilizes standard accounting system.
- Training is not given to the borrower to improve the entrepreneur skills
- The MFI's is not prepare efficient business plan before borrowing to the poor.

The reason to the above exists is that the institution is not used enough performance evaluation techniques and also is not taken corrective action and remedies accordingly the side of organizer and users of micro finance institutions.
VII. RECOMMENDATIONS

⇒ Some members of management waste too much time and energy in politics, risking their very responsibility to suffer. Therefore the staff, from members of the board to the sub branch officers, should committed their responsibility.

⇒ The institution needs to have a well-established financial department or unit that utilizes standard accounting systems. Transactions need be recorded posted, analyzed, and interpreted regularly and timely. The initiation, actual approval of expenditures, and collection of receipts must have some appropriate internal control procedures intact to filter resource abuse and mal practice.

⇒ The management staff should be trained sufficiently related to the activity of performed by the institutions, this helps to the organization in order to achieve the objective efficiently and effectively.

⇒ The MFIs should prepared efficient business plans before lending money to borrowers and should follow up continually how far the implementation has succeeded, and incase of any failure to meet the objectives of sustainability and out reach, must take corrective actions and remedies accordingly.

⇒ Training must be given to the borrower in order to improve the entrepreneur skills related to the market condition this helps to avoid homogeneity of tasks.

⇒ The loan policy of the institution must be review according to the environmental conditions like market conditions and value of money. It helps to avoid the problem of capital shortage of the borrower.
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