Assessment of Factors Affecting the Performance of Microfinance Institutions: The Case of Hawassa City

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The role of MFIs in the development process is noteworthy. The major objective of this study is to assess the factors which affect the performance of microfinance institutions in Hawassa city. The research is descriptive in type and both probability and non probability sampling techniques were employed for this study. Employees and clients of MFIs were the major target groups of the study. From the total of 116 targeted employees, 74 employees were included in the sample. On the other hand, from the total of 8590 targeted clients, 199 were taken as a sample. Primary and secondary data were collected through well organized questionnaire for this study. In addition to this, the researchers conducted interview with managers of the institutions. Accordingly the researchers assessed different factors which affect the performance of microfinance institutions. The identified factors related to clients includes: problems related to the repayment, diversion of loan into non income generating activities, business condition of the borrowers and so on. On the other hand, institutional factors such as shortage of human resource, lack of cost effective technologies, shortage of loan capital and some others are identified. Political factors which are related to MFIs performance are also recognized in this study. Based on the analysis and the finding of the study, the researchers suggested some recommendations to improve the performance MFIs in Hawassa city. Implementation of different methods to improve women's participation in micro credit and saving services, usage of cost effective technologies to minimize operational cost, hiring an adequate number of employees in the institution are some of the recommendations suggested by the researchers to improve the performance of the institutions.

Key words*:* Clientele Factors, Economic Factors, Institutional Factors, Political Factors and Performance.

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1. Introduction

1.1 Background of the Study

Microfinance institutions are found among the institutions which provide different financial service for the poor who are out of the conventional banking system particularly in developing countries. Microfinance Institutions (MFIs) provide financial services to poor clients who in most cases have no access to formal financial institutions. During the last three decades, microfinance has captured the interest of both academics and policy makers. This is, among other things, due to the success of the industry (Assefa et al., 2013).

Since the first Proclamation of 1996 that gave the legal background for the operation of the micro-financing business, the industry has witnessed a major boom. Today, there are 31 MFIs registered with the National Bank of Ethiopia serving clients. The Ethiopian microfinance market is dominated by a few large MFIs, all of which are linked to regional state government ownership. The three largest institutions account for 65% of the market share in terms of borrowing clients, and 74% by loan provision. These are Amhara (ACSI), Dedebit (DECSI) and Oromia (OCSSCO) Credit and Savings Institutions (Ebisa et al., 2013).

According to the Federal Micro and Small Enterprise Development Agency (FeMESDA), a total of 70,455.00 new micro and small scale enterprises were established in 2011/12 employing 806,322.00 people. The total employment has grown by 23.8 percent, compared to a year ago. The total amount of loan received from micro finance institutions was more than Birr 1.088 Billion under the review period, 9.5 percent higher than last fiscal year. This shows that the role of microfinance institution is significant in many aspects. The loan given by MFIs for micro and small enterprises contributes for the acceleration of the development process of the country. Based on the proclamation on microfinance business, micro finance institutions can be engaged in accepting both voluntary and compulsory savings as well as demand and time deposits. In addition to this micro finance business are allowed to participate in extending credit to rural and urban farmers and people engaged in other similar activities as well as micro and small-scale rural and urban entrepreneurs.

The proclamation gives the right to MFIs for drawing and accepting drafts payable within Ethiopia, to participate in micro-insurance business as prescribed by directive to be issued by the National Bank, purchasing income-generating financial instruments such as treasury bills and other short term instruments as the National Bank may determine as appropriate, acquiring, maintaining and transferring any movable and immovable property including premises for carrying out its business.

1.2 Problem Statement

Micro finance institutions play a great role in supporting the economic activities of the rural and urban poor in developing countries. Studies show that 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 (Lafourcade et al., 2005).

Ebisa et al. (2013) found that microfinance institutions are decisive way outs from the vicious circle of poverty particularly for the rural and urban poor, particularly in a country like Ethiopia where many people live barely below the absolute poverty line. The micro financing industry of Ethiopia is escalating in the face of the growing deep concerns for inflation and low interest rate in the microfinance industry affecting the financial health and viability of MFIs.

Many studies which are conducted on microfinance institutions also indicate that, the contribution of these institutions for poverty alleviation is significant. But the institutions face many challenges that inhibit their contribution for the development of the country. Hurissa (2012) identified the challenges of microfinance institutions by conducting research on the selected MFIs in Addis Ababa city. But the conclusion of her research is limited to the selected MFIs in Addis Ababa. The situation can vary from one MFI to another. So it is difficult to use her conclusions for all microfinance institutions.

Though the strengths of the Micro Financing Industry outweigh its weaknesses, there are still big challenges facing the microfinance institutions (Ebisa et al., 2013). This study also concludes that the importance of MFIs is unquestionable. They contribute a lot to support the Ethiopian poor who are out of the formal banking system. The challenges of the Ethiopian microfinance institution were identified at a country level in this research. The conclusions are also more general and do not show the case of MFIs in Hawassa city separately.

According to Amha and Narayana (2000), the Ethiopian MFIs have many problems related with the regulatory framework in the microfinance industry, limited support to micro and small enterprise development, the activities of NGOs on providing credit as a grant, absence of solid linkages between MFIs and Commercial Banks, lack of fund for loans and an institution to establish microfinance fund and access to soft loans from

NGOs, very limited research and innovation in the microfinance industry and other problems also identified on his research findings. The finding of this research was more general and the case of MFIs in Hawassa city was not indicated specifically in this research. In addition to this, the findings are outdated. Within these twelve year period, there may be many policy changes and the situation might be changed.

By considering the gaps of different researches conducted on microfinance institutions, this study focused on filling this research gap by focusing on assessment of the factors which affect the performance of selected micro finance institutions in the study area, namely Omo, vision fund and Sidama micro finances, which are working in the capital city of SNNPR Hawassa with the help of the following guiding basic research questions:

1. What are the major factors which affect the performance of MFIs?
2. Do all MFIs face similar problems which affect their performance?
3. What are the rationales behind the success and failure of MFIs?
4. What factors are related to clients of MFIs?

2. Review of Literature

2.1 What is Microfinance?

Microfinance is the supply of loans, savings, money transfers, insurance, and other financial services to low-income people. Microfinance institutions (MFIs) —which encompass a wide range of providers that vary in legal structure, mission, and methodology offer these financial services to clients who do not have access to mainstream banks or other formal financial service providers (Lafourcade et al., 2005). Similarly, Parker et al., (2000) defines microfinance as provision of small loans (called “micro-credit”) or savings services for people excluded from the formal banking system.

Microfinance is a type of banking service which provides access to financial and non financial services to low income or unemployed people. Microfinance is a powerful tool to self empower the poor people especially women at world level and especially in developing countries (Noreen, 2011). While Steel and Addah (2004) describe micro finance as small financial transactions with low income household and micro enterprises, using non standard methodologies such as character-based lending, group guarantees and short term loans.

The definitions of microfinance given by different scholars contain some similar pointes. They describe microfinance as provision of a small amount of loan for the poor, specifically the rural poor living in developing country. Some microfinance institutions provide non financial services for their clients. But in our case, most of the micro finances are known by the provision of a small amount of credit and saving services.

2.2 History of Microfinance

Bornstein (1996) cited in (Zeller and Meyer, 2002) stated that Professor Mohammad Yunus, a Bangladesh, addressed the banking problem faced by poor villagers in southern Bangladesh through a program of action research. With his graduate students at Chittagong University, he designed an experimental credit program to serve the villagers. The program spread rapidly to hundred of villages. Through a special experimental relationship with local commercial banks, he disbursed and recovered thousands of loans, but the bankers refused to take over the project at the end of the pilot phase. They feared it was too expensive and risky in spite of its success (Zeller and Meyer, 2002). When we see the condition of most microfinance clients, giving loans for them seems risky. Because getting the money back from the borrower needs special follow up and also the absence of collateral for lending aggravate the fear.

2.3 Microfinance Institutions in Ethiopia

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

In this case some MFIs have strong capacity to serve a large number of clients by using their financial and geographical advantage. These three institutions take more than 50% of the market share. This means they are reaching and serving many poor in their areas.

2.4 The Need for Microfinance

Microfinance institutions play many roles in the development process. The need for microfinance is also increasing in many countries. According to (Parker et al., 2000), in the right environments, microfinance can accomplish many roles such as financer people's economic choices, diversifying household income, making household less vulnerable to downturn in the economy or personal, smoothening income flows of the household, improve quality of life throughout the year and strengthen the economic position of women so that they can take greater control of decisions and events in their lives. In addition to this MF contributes in the process of household asset building. It also provides savings service, allowing poor households to accumulate safe, but flexible cash accounts to draw on when needed.

Microfinance services lead to women empowerment by positively influencing women's decision making power at household level and their overall socioeconomic status. By the end of 2000, microfinance services had reached over 79 million of the poorest of the world. As such microfinance has the potential to make a significant contribution to gender equality and promote sustainable livelihood and better working condition for women (Noreen, 2011).

According to United Nations Millennium Development Goal (MDGs) microfinance is a strategy to change the life of the poor people in terms of generating revenue to cover the necessary cost and institutions meet the demand (United Nation, 2011). Micro finances support the process of development by changing the situation of the poor through facilitating different services which are necessary for poor.

2.5 Performance Measurement of MFIs

According to Basu and Woller (2004) cited in (Wale, 2009), two different perspective on which the MF performance is to be measured has created two opposing but having the same goals school of thought about the MF industry. The first one are called welfarists and the second one institutionist. Welfarists argue 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. Welfarists tend to emphasize poverty alleviation, place relatively greater weight on depth of outreach relative to the 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. On the contrary, institutionists argue 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 MFIs must by themselves generate enough revenues to reach more poor people in the future. They favor marginally poor custome. 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 (Wale, 2009).

2.6 Challenges of Microfinance Institutions

Most microfinance programs are small and vulnerable to resource constraints. Most operate in a few locations and serve specific clusters of clients, so they are exposed to the systematic risks of undiversified loan portfolios. Most mobilize few savings and not financially self sufficient, so they are dependent on the whims of donors and government for their future existence (MEYER, 2002). Microfinance institutions may face financial problems which affect their performance. When the customer of the institutions increases the required money for loan disbursement also increase. On the other hand, when the operational areas of the institutions is limited (less outreach), it is difficult to be profitable.

2.7 Factors Affecting the Performance of MFIs

Huang (2005) cited in (Vanroose, 2008) distinguishes three groups of factors: policy, geographical and institutional factors.

Policy Factors: There are different macro-economic factors related to MFIs. The first factor is the income level. Westley (2005) cited in (Vanroose, 2008) states that regions with higher levels of income have less developed microfinance sectors. He provides two reasons. Firstly, micro-entrepreneurs with higher incomes have more opportunities to self-finance through savings. Secondly, they may benefit more easily from informal finance through family and friends, as well as from formal finance.

Similarly, Schreiner and Colombet (2001) argue that one of the reasons why microfinance in Argentina has not developed is due to the higher wages people earn. Traditionally, microfinance also focuses on the poor excluded clients, so microfinance should be reaching more clients in regions that are poor. The other factor is economic instability of the country. Microfinance is more developed in countries that have relatively in stable economies. The international donor community has historically played an important role in subsidizing the emergence and further development of microfinance programs.

Imboden (2005) cited in (Vanroose, 2008) stated that, as most institutions started as non-governmental organizations, external financial intervention was needed.

Geographic Variables: Stieglitz and Weiss (1981) cited in (Vanroose, 2008) stated that transaction and information costs influence financial development. In some cases, they lead to market failures. Good interconnectivity between regions, the availability of electricity, communications and sanitation networks lower these costs. A high population density also helps. According to Sriram and Kumar (2005) cited in (Vanroose, 2008) two contradictory arguments could be made. The first is that formal financial institutions may be more developed in regions with higher population density and good regional interconnectivity. Thus the need for specific MFIs may not be present. The second is that, if the development of the two sectors is complementary, these factors could eventually also stimulate the development of the microfinance sector. Hulme and Moore (2006) cited in (Vanroose, 2008) also support the hypothesis that microfinance tends to develop much faster in densely populated areas.

Institutional Variables: Institutions play an important role in the development process of a country. One institution that is often mentioned in the microfinance literature is the educational system. The role of human capital in financial sector development is widely recognized (Vanroose, 2008). Paulson (2002) cited in (Vanroose, 2008) finds that regions with higher levels of education have more developed financial systems. Guiso et al (2004) cited in (Vanroose, 2008) also find positive effects of social capital in financial sectors.

2.8 Empirical Literature Review

Many studies were conducted on the issue related to microfinance institutions performance, challenges their impact on the economic and social condition of the rural poor. The study conducted by Ebisa et al., (2012), shows that the mean amount of loans extended by 30 microfinance institutions in the country is 2.2938, whereas the mean borrowing customers equal an amount of 8.2434. As it is indicated in this study the R square value is 0.913 implying that 91.3% of the variations in the amount of loans extended by 30 microfinance institutions in the country are explained by the number of borrowing clients. On the other hand, the Pearson correlation indicates strong positive linear relationships between number of borrowing clients and amount of loans extended. The total number of active borrowing clients of the microfinance institutions in Ethiopia reached over 2.4 million customers in 2011 whereas the total credit extended by all microfinance institutions amounted to Birr 6.9 billion. Of the total credit granted, the share of the three largest Microfinance institutions is Birr 5.1 billion. The market shares based on the number of borrowing clients are 28.1, 16.1 and 20.4% for Amhara Credit and Saving Inst (ACSI), Dedebit Credit and

Savings Inst (DECSI) and Oromia Credit and Savings (OCSSCO), respectively.

Lack of skilled personnel is the common problem in Ethiopian Microfinance Institutions. This situation is more exacerbated by high turnover of experienced personnel either for the need for better jobs or hate to work in rural areas with minimal facilities provided as compared to urban areas which offer better living conditions. There is also a problem of using modern core finance technologies for many of MFIs specially those microfinance institutions operating in remote rural areas having poor infrastructure development. As a result, there are problems of non standardized reporting and performance monitoring system. On the other hand, MFIs face challenges of obtaining loans in the existing financial market, particularly from banks, which hampers strive for addressing various needs of clients. There is an illegal way of doing the micro financing business from the side of the government, NGOs and other agencies which continue to provide uncollectible loans by violating the proclamations ratified by the House of People's Representatives. Apart from this, there are deep concerns within the microfinance sector about the growing issue of inflation on the profitability of MFIs, and the ability to maintain low interest rates (Ebisa et al., 2013).

A Contrast of Grameen Bank to a Traditional Bank

The Grameen bank differs from that of traditional banks in so many ways. According to Hassan (2002) the Grameen diverges from traditional banking in the selection of the clientele that it has chosen to serve, in the methods it employs to serve this clientele and in the products that it offers to this clientele. Accordingly Grameen has chosen to serve the ‘‘poorest of the poor'' in rural Bangladesh and has targeted women, believing that they are the most needy of the poor. Through its lending and social policies, Grameen intends to permanently elevate these poor to an acceptable level within their society. Women are among the most vulnerable group of the society in Ethiopia. Most of the clients of MFIs are women. This shows the idea of Grameen bank is shared by many micro finance institutions.

In addition to this, Grameen differs from traditional banks in the value of the principal amounts and types of the loans it offers, the terms of its loans, the repayment conditions of its loans, its lending procedures and in the overall social consciousness and guidance that it incorporates in its loan policies. Grameen is attempting to reach a very large population of uneducated, rural poor. Much of this population rarely, if ever, dealt with the Bangladesh Taka currency, but lived in a barter society. Grameen could not expect these people to come to the bank, as traditional banks expect, but was required to deliver the bank to the people (Hassan, 2002).

2.9 Conceptual Framework

The performance of Microfinance Institutions can be affected by different internal and external factors. Studies indicated the success or failure of the institutions is directly or indirectly related to different factors. Institutional, social, economical as well as environmental factors play a great role on the performance of the institutions. Institutional factors related to the financial capacity, the capacity of the institutions to serve their clients, the use of different cost effective and efficient technologies in the institution and other related issues. Social factors on the other hand are related to the conditions of the clients. Social factors include the tradition, saving habit of the people, the existence of other means for borrowing in the community and so on. In addition to this, Environmental factors such as geographical location of the clients, availability of infrastructure, and others contribute for the performance of the MFIs. Economical factors also have a significant effect on the performance of Microfinance Institutions. For instance, the economic level of the country in which MFIs are operating is directly related to the outreach of the institutions and their sustainability. The following diagram shows the relationship between the factors and performance of MFIs.

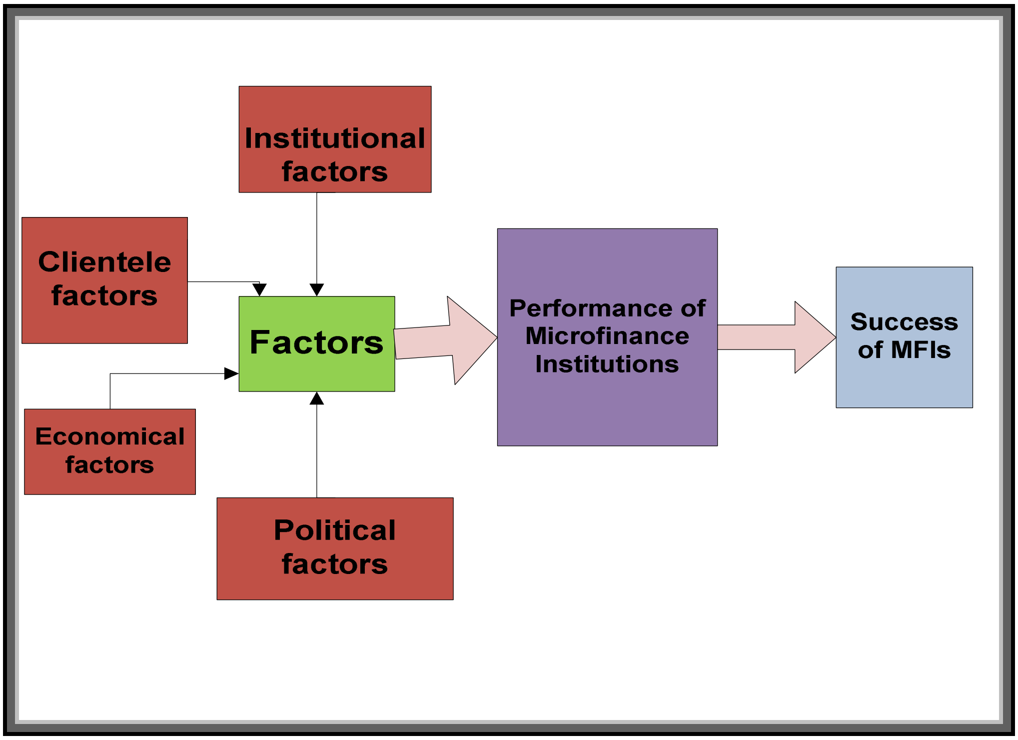


Figure 1. Conceptual framework of the study

3. Research Design and Method

3.1 Research Design

This study employed descriptive and exploratory type of research design to show the opinion of the managers in Microfinance Institutions, the employees and their clients to assess the factors that affect the performance of Microfinance Institutions. To this end, the researchers used both qualitative and quantitative approaches. Research in such a situation is a function of researchers' insights and impressions. Furthermore, in this study qualitative research approach is used to assess the opinion of the respondents towards the factors, their assumptions and the problems they faced. Quantitative approach was used to indicate the frequency and percentage of the responses and to present different secondary data in organized way.

3.2 Sampling Frame and Sampling Size

The sampling frame is the list of all elements from which the sample is drawn. For this research, the sampling frame is list of Microfinance Institutions operating in Hawassa city, the list of employees working in these institutions obtained from each institution and list of clients of the institutions. The set of sampling unit considered for this study include Microfinance Institutions which are found in Hawassa city, their clients and the workers of the institutions.

In Hawassa city, the number of Microfinance Institutions is only three. In order to compare different factors found in different institutions, all the institutions are included in the sample. The researchers employed formula to calculate the minimum size out of 116 targeted workers in the institution. Israel (2009) found the following formula to determine the sample size which is trustworthy when the population size is known. By considering the homogeneity of the respondents and to reduce the sample size the researchers applied 7% precision level in the formula.

$$n = \frac{N}{1 + N(e^2)}$$

Where n = sample size
e = margin of error (7%)
N= Population size

n= 116/1+116 (0.07[2)]

= 116/1+116(0.0049) =116/1.5684 = **74**

Thus, the employees included in the survey questionnaire are 74. The number of respondents taken from each institution is determined by considering the total number of employees in the institutions. Besides, 3 individuals (managers) are selected for interview purposively to support the purpose of this research.

Similarly, in order to decide the number of clients to be included in the sample, the researchers employed formula method. As a result, from Omo Microfinance branches, Menehariya subcity, Mehal subcity, Addis ketema subcity and Hayik Dar subcity are selected. The number of clients in these sub branches is 2092, 958, 827 and 1320, respectively. From Sidama Microfinance Institution, Hawassa branch is included in the sample. There are 3090 clients in this institution. Vision fund is the other institution with the total client size of 303. Totally, 8590 clients are taken as a total population from the selected institutions.

$$n = \frac{N}{1 + N(e^2)}$$

n= 8590/1+8590 (0.07[2)]

= 8590/1+8590 (0.0049) =8590/43.091 = **199**

As a result of the calculation above, 199 clients are included in the sample. As the case of employees, precision level 7% is taken to determine the sample size of the clients. The researchers assumed homogeneity of the clients and the existing resources to determine the sample size by changing the precision level. The number of clients taken from each institution is determined by considering the total number of clients each institution has.

3.3 Sampling Techniques

For the purpose of this study, the researchers used both probability and non-probability sampling techniques. There are three MFIs in Hawassa city, namely Omo Microfinance, Sidama Microfinance and Vision Fund MFI, which were included in the sample. Researchers have decided to take 50% of the branches to get adequate data. As a result, in the case of Omo Microfinance, it has 8 sub-branches in Hawassa with the distribution of one branch in each sub-city. Because of their homogeneity in many aspects, the researchers took only 4 of the sub branches by using the simple random technique. This means from Omo Microfinance, the Head Offices are selected purposively, and 4 sub-branches are selected randomly. In the case of Sidama Microfinance Institution, there are three branches in Hawassa city. Two of the branches are selected by using the simple random method. Vision Fund Microfinance Hawassa branch does not have a sub branch in Hawassa. So Hawassa branch Office is taken and included in the sample.

There are about 198 employees in the selected three institutions, including the branch and sub branch workers. Out off these employees, 116 are operational workers who have direct linkage with the day-to-day activities of the institutions. Simple random sampling method is employed to select the sample from this population. The researchers used purposive sampling (expert sampling) to include all managers in the sample because it is believed managers of the institutions are the main sources of required information. Regarding the clients, there are about 8590 clients in the selected institutions. Due to availability of list of the clients from each institution, the researchers employed systematic sampling technique to select 199 clients. Consequently, 111 from Omo MFI, 66 from Sidama MFI and 11 clients from Vision Fund were selected.

3.4 Methods of Data Collection

For the purpose of this study, questionnaire and semi-structured interview data collection tools are used. To gather information from the respondents of the selected sample, the researchers developed a questionnaire which containing open and closed-ended questions. The questionnaires are distributed and filled with the support of enumerators. The questionnaires were prepared in English language and translated into Amharic to make the questionnaire simple for the respondents. To check the clarity of the questionnaire, reliability and validity tests have been conducted before distribution of the questionnaires. After the test, some modifications were made.

Three types of questionnaires were distributed in May 2014 for three target groups of the research. Two of the questionnaires are used to collect data from clients of MFIs and employees of the institutions. The third questionnaire is filled out by operation managers of the institutions. All 276 distributed questionnaires were filled and collected properly. In addition, the researchers conducted interview with managers of the Microfinance Institutions to seek in-depth information about the factors and challenges which affect the performance of MFIs.

4. Results and Discussion

4.1 Purpose of Borrowing

As table 3 portrays, the highest percent of the respondents (40%) borrowed the money for the expansion of the existing micro business and 64 (32.2%) of the clients borrowed to start a new business, while 20% of the borrowers invest the money for future income generating activities such as to build houses to rent. Generally, over 92% of the borrowers used the loan for business related activities which is similar to that of Grameen bank, according to Morduch (1999) the reasons for common loan include for rice processing, livestock raising, and traditional crafts. These all are income generating businesses.

Table 3. Purpose of the clients for borrowing

Reasons to borrow from MFIs	Frequency	Percent%
To start a new business	64	32.2
To upgrade the existing business	80	40.2
For medical cases	5	2.5
To build houses to rent	40	20.1
For other purpose	10	5.0
Total	**199**	**100.0**

4.2 The Amount of Money Invested

Most of MFIs provide loans for income generating activities. The clients of these institutions are expected to fulfill the borrower’s requirements. The first criterion to get the loan is having licensed micro business in the operational areas of the institutions. The institutions also expect to invest the money for income generating activities. Koveos and Randhawa (2004) stated that microloans enable clients to break out of the ‘poverty trap’ by facilitating growth in household income, providing channels for mobilizing savings and through group as well as individual loans help to build up the village's asset base. In order to improve the income of the house hold (HH) and to become economically strong, it is better to invest the money for income generating activities, especially for the poor.

Table 4 depicts that 47.2% respondents invested 100% of the loan for income generating activities. On the other hand, 57 (28.6%) of the clients invested only. But 50-75% of the loan for their business. 11.6% of the respondents diverted the loan into non income generating areas. If they spend the money on non-income generating activities, they may face a challenge to repay their loan from their lower HH income. They may go to other source of money lenders to repay their loan. So it becomes difficult to free the poor from poverty. Even though in some of the institutions, the borrowers submitted the business plan and business license, only 47% of the borrowers invest 100% of the loan for the business.

Table 4. Amount of money invested on income generating activities

Amount invested	Frequency	Percent%
100%	94	47.2
50-75%	57	28.6
25-50%	22	11.1
below 25%	23	11.6
Total	199	100.0

The interview result with the managers of the institution is also supported that, investing the loan on non business areas weaken the loan repayment capacity of the borrowers. In addition, some borrowers propose a fake license and the others use the license of friends or relatives to borrow the money. Bartik (2009); CGAP (2011); Karlan & Zinman (2012) cited in Chakrabarty and Bass (2013), identified that less than half of microfinance loans are used for non business activities. Thus, these loans are more likely to be used to stabilize consumption, pay education fees and medical expenses, or for life events including weddings and funerals. As a result, the only expectation of the transaction between the MFI and the borrower is that the loan can be repaid and costs incurred from monitoring the repayment of this loan will be moderate. Though the amount invested on non income generating activities is low, the institutions may face challenges to collect the loan from the poor according to the repayment schedule.

4.3 Availability and Types of Training

Providing training to the clients helps to aware the clients on many issues such as in the proposed business, on the area of entrepreneurship, on the issue of saving and on other related issues to support and strengthen the capacity of the borrower both on the repayment of their loan and in their life. Table 5 below shows that, only 48 (24.1%) of the borrowers have got training on different issues. The majority of the clients are out of any training. From the clients who have taken training, 48% them attended training on the issue of saving. Only 52% of the respondents have taken training on the proposed business.

Table 5. Clients who have taken training and get support

Items	Alternatives	Frequency	Percent %
Have you taken training?	Yes	48	24.1
	No	146	73.4
	Total	**197**	**99.0**
Which types of training did you get so far?	Training related with the new business	15	31
	Training related with entrepreneurship	10	21
	Training related with saving	23	48
	Total	**48**	**100%**
Did you get monitoring and support from MFI	Yes	112	56.3
	No	87	43.7
	Total	**199**	**100.0**

According to Chakrabarty and Bass (2013), MFIs can adopt two strategies regarding their services. One in which the MFI follows its basic mission of solely providing financial services, and the other in which MFIs provide supplementary knowledge services in addition to financial services to borrowers. The first MFI strategy specifically focused on the past and present financial status of the borrower. That is, the purpose of the transaction between the MFI and borrowers is to provide borrowers who are determined creditworthy, with loans. These loans might be used to start microenterprises. The second strategy, which encourages entrepreneurship by additionally providing knowledge resources for borrowers, focuses not just on the past and present financial status of the borrower but also in the borrower's future entrepreneurial plans. MFIs that choose to provide impoverished borrowers with knowledge services in addition to financial services do so to equip these borrowers with the tools necessary to take the risks needed to create and grow microenterprises. In principle most of MFIs agree with the second strategy, to give different types of training for their clients. But only 24% of the clients have received this service.

4.4 Monitoring and Support System

Monitoring the business condition of the clients is one of the regular tasks of the institutions. There are employees responsible for monitoring and providing assistance for the clients. In one of the institutions, there are agents at kebele level, which are responsible to mobilize saving and collect payments from the borrowers. As table 5 above shows, only 56.6% of the respondents have got different support and the institution’s follow up, while 43% of the clients did not get similar service. The institutions check their business when the clients fail to repay their loan. If the institutions have no information about their client’s business condition, it becomes difficult to be confident about the repayment. Knowing the condition of the clients helps the institutions to take different corrective actions.

4.5 Loan Repayment Related Issues

Improving the repayment rate could also help to reduce the dependence on subsidies and help the MFI reach a better sustainability level. It is also argued that high repayment rates reflect the adequacy of MFI's services to clients’ needs and restrict the cross subvention of the borrowers. Repayment performance also acts as an important positive signal when the MFI has to raise new funds. For all these reasons, higher repayment rates are largely associated with benefits both for the MFI and the borrower (Godquin, 2002). The clients’ failure to repay their loans related to different factors. Table 6 below shows that 65.8% of clients are paying according to the repayment schedule, whereas the other 34.2% of the clients fail at least one time from paying the loan timely. On the other hand, 27.6% of the respondents have a fear of paying their loans, according to the institution's program in the future because of different reasons. The rest (71.9%) of the clients are confident enough to repay the money until they finish the entire loan.

The reasons for those of the clients who failed to repay vary from client to client. The reason of 47% of unsuccessful clients is a personal problem like illness and different family cases. About 21.8% of them fail to repay the loan because of market condition of their business. The other 16% of the respondents connect their failure with the institutions. Lack of follow up from the institutions becomes the reason for the failure of 16% of the clients.

Table 6. Loan repayment according to the repayment schedule

Items	Alternatives	Frequency	Percent%
Have you you're your loan according to repayment schedule?	Yes	131	65.8
	No	68	34.2
	Total	**199**	**100.0**
What type of challenges have you faced to repay the loan?	The business faced lose	7	12.7
	The business is not working properly	12	21.8
	Because of personal reason	26	47
	Because the institution do not follow the repayment	9	16
	Because of other reason	1	1.8
	Total	**55**	**100**
Can you pay your loan according to the schedule in the future?	Yes	143	71.9
	No	55	27.6
	Total	**199**	**100.0**

Delay and failure of repayment is related with the performance of the institutions. The data above indicate the seriousness of the case. Though high percentages of the clients are paying back the loan, a significant percent of clients have failed from repayment due to different reasons. Godquin (2002) found out social ties among the group had a negative impact on the repayment; the age of the borrowing group had a significant negative impact on repayment rate; group homogeneity proved to have no significant impact on repayment performance in the whole sample. On the other hand, group homogeneity in terms of sex showed a positive impact, whereas homogeneity in terms of education showed a negative effect. Homogeneity in terms of age also showed both a negative and positive effect on the repayment performance. His study mainly focused on loan repayment of group borrowers.

4.6 Performance Evaluation by Clients of MFIs

The clients measure the performance by considering the institution's capacity by using simple measurements when they get the service, by considering the time taken to get the service, by observing the physical set up of the offices, by comparing the interest rate of their institution with other institutions and so on.

4.6.1 Experience of Voluntary Saving

One of the options for promoting household welfare is the development of facilities for safe but liquid savings deposits. Early microfinance programs were not effective in mobilizing savings and showed little interest in doing so. Partly, it was thought that poor HH were too poor to save (Morduch, 1999). Robinson (1995) cited in (Morduch, 1999) stated that, from an institutional viewpoint, in cooperating savings mobilization in microfinance programs makes sense for a variety of reasons. First, it can provide a relatively inexpensive source of capital for relending. Second, today’s depositors may be tomorrow’s borrowers, so a savings program creates a natural client pool. Third, building up savings may offer important advantages to low income households directly: households can build up assets to use as collateral, they can build up a reserve to reduce consumption volatility over time, and they may be able to self-finance investments rather than always turning to creditors. By considering these advantages of saving, some of MFIs in Hawassa highly encourage saving.

Table 7. Experience of voluntary saving

Do you have voluntary saving?	Frequency	Percent%
Yes, I have voluntary saving	99	49.7
No, I don’t have voluntary saving	100	50.3
Total	199	100.0

Table 7 shows that 49.7% of the respondents have voluntary saving account in the institutions, whereas 51.3% do not have voluntary saving account. In the case of Omo Microfinance Institutions, one of the requirements to get loan is that, saving 20% of the loan requested. This approach has two basic advantages. First, it encourages saving habit of the borrowers for the future. Secondly, it helps to solve the problem of loan capital shortage. But the data in the table above designate the majority of the respondents are not voluntary depositors. If it is so the institutions are losing the advantages that support to improve the performance of the institutions in this aspect.

4.6.2 The Respondent’s Business Condition

The business condition of the borrowers is the other factor related to clients. It is related to many issues of the institution such as timely repayment, saving loan capital, loan size and many others. The majority of the respondents (53%) business is profitable and they are getting profit from their business. On the other hand, 23.6% clients’ businesses are not profitable. The smaller amount of the borrower's business is under risky conditions. We can connect monitoring and support system and training with the business condition of the borrowers. If there is an organized system of monitoring and support, the institutions can have the chance to know the borrower's capacity of repayment earlier and can minimize the amount of loan at risk. On the other hand, provision of training helps the borrowers invest the money in profitable business and to be an entrepreneur. So the business condition of the clients plays a great role on many areas of the institution.

4.6.3 Level Of Agreement and Disagreement of Clients on Different Issues

MFIs are one way to fill the financial need of the rural poor because; the poor do not have a tangible asset that serves as collateral to borrow from traditional banks. So serving the poor is the primary objective of MFIs. The respondents were asked about whether the institutions are serving the poor properly or not. As table 8 below shows 69.3% of the clients indicated their agreement while 14.1% show their disagreement.

According to Fernando (2006), MFI's main objective is to provide poor and low income households with an affordable source of financial services. Interest charged on loans is the main source of income for these institutions and, because they incur huge costs, the rates are correspondingly high. Four key factors determine these rates: the cost of funds, the MFI's operating expenses, loan losses, and profits needed to expand their capital base and fund expected future growth. In order to have these advantages, the selected microfinance institutions also charged high interest rates from their clients.

The interest rate varies from institution to institutions. Some of the institutions charge more than 20% interest. The others charged between 10 to 20 percent interest. The interest rate also differs with the purpose of borrowing. Table 8 illustrates that concerning the interest rate, the majority (52.3%) of the borrowers were disagreed on the fairness of the interest rate to the poor. 47.9% of the respondents agree that the interest rate of MFIs is fair to the poor. But from the total respondents who agreed on the fairness of the interest rate, 37 (18.6%) of the clients agreed in some extent. As stated earlier some of the respondents shifted from microfinance to microfinance to get loan with lower interest rate. This implies that higher interest rate can cause shifting of clients into other institutions. In addition to this higher interest rate also affect the borrower's repayment capacity because the borrowers are expected to pay both the principal and the higher interest at a time so they may fail to pay according to the schedule.

Table 8. Level of agreement and disagreement of clients on different issues

No	Item	Agree		Somehow agree		Disagree	
		No	%	No	%	No	%
1	MFIs are serving the poor properly	130	69.3	33	16.6	28	14.1
2	Interest rate of MFIs are fair to the poor	58	29.3	37	18.6	104	52.3
3	The repayment schedule is comfortable to the clients	118	59.3	42	21.1	37	18.6
4	The institutions have easy process to get service	110	55.3	46	23.1	43	21.6
5	The institution is near to my home	169	84.9	16	8	14	7
6	The amount of the loan given by MFIs enough	66	33.1	55	27.6	78	39.2
7	It is better to borrow from MFIs than other source	116	58.3	50	25.6	33	16.6
8	There is improvement in my life after getting the loan	69	34.7	18	9	109	56.3

Repayment schedule of the institutions is the other issue related to clients of MFIs. Most microfinance arranged the repayment schedule starting from a month after the disbursement of the loan. The duration of the loan varies from institution to institution. One-two year duration is common in the selected MFIs. The repayment has taken place monthly until the borrower finish the loan. As table 8 exhibits 160 (80%) of the respondents agree that, the repayment schedule of the institution is comfortable for them. But a smaller portion of the clients (19%) disagreed on the repayment schedule of the institutions. Some of the respondents disagreed on the repayment schedule because of their work condition. For instance, if the borrowers want the money for animal fattening it is difficult to start the repayment immediately after a month. So if there is no comfortable repayment schedule, it becomes difficult for the borrowers to repay according to the schedule.

There are different requirements to get different services specially to get a loan. Lending to the poor has many risks. In order to minimize these risks, all the borrowers are expected to pass many steps. But the steps vary from institution to institution. Some of the institutions use long processes before disbursement of the loan. The others use relatively short processes. In this regard, table 8 shows that 78.4% of the respondents were agreed that the process to get the service is easy and comfortable. The other 21% of the respondents expressed their disagreement. In relation to this the need for collateral is another annoyance for the poor to get a loan. Because the other requirement, that make the individual eligible for a loan is the availability of collateral in different type. Especially individual borrowers are expected to have collateral or guarantee to make the loan secure.

Stieglitz and Weiss (1981) cited in (Vanroose, 2008) stated that transaction and information costs influence financial development. In some cases, they lead to market failures. Good interconnectivity between regions, the availability of electricity, communications and sanitation networks lower these costs. We can connect this point with the physical distance of the institution from the borrowers. If the institutions and the clients are found in a distant area, the different costs of the institutions will increase at least in some amount. Monitoring cost and communication costs are the examples of these costs. So, if the clients are living in a nearby area of the institution, the institution can reduce some costs. Regarding distance of the institutions, from the total of the selected 199 respondents, 92.9% agreed that the institution is near to them.

The main objective of microfinance institutions is to provide microcredit and saving service to the poor. The loan size of microfinance institutions is known by its small size. The amount of the loan matters both the borrowers and the lender institutions. Today the value of money has declined and situations to start a new business as well as to improve the existing business need high amount of money. The poor are out of the normal banking service. So microfinance institutions are the best option to get loan for micro businesses. As table 8 above discloses 58.3% of the respondents agreed and 25.6% somehow agree that it is better to borrow from microfinance institutions, even though the interest rate is high. Concerning the loan size of MFIs, 61% of the respondents agreed on the reasonable amount of the loan (with 33.1% agreed and 27.6% somehow agree). Among the agreed respondents, around 28% of them agreed to some extent. On the other hand significant percent of respondents (39%) disagreed on the loan size of MFIs. This implies that, though the loan size of the institutions satisfied the majority of the clients, there are also high percent of clients who are not satisfied with the loan size. Their dissatisfaction is related to their inability to expand their business and today's money value.

Most researchers indicate that microfinance institutions are serving the poor and the poor is coming out of extreme poverty by using MFIs as a means. Littlefield et al 2003 and Dunford 2006, cited in Hermes and Lensink (2007) stated that, the advocates of microcredit argue that microcredit can help to substantially reduce poverty. In addition, microcredit can contribute to an improvement of the social and economic situation of women. Finally, microfinance may have positive spillover effects such that its impact surpasses the economic and social improvement of the borrower. The result of this study shows deviated from the above assumptions. Table 8 above displays only 43.7% of the respondents agreed that there is improvement in their life after getting the loan. But the highest percentage of clients 56.3 % disagreed on the issue. That means the contribution of the loan in their life is insignificant and the service given by the institutions are not satisfying the need of the majority of clients.

4.7 Factors that Affect Loan Repayment from the Employee's Point of View

Successful repayment of the loan has a positive impact on the performance of MFIs. Clients of microfinance institutions sometimes fail from paying the loan accordingly. There can be different reasons for their failure. The employees of MFIs are expected to be near to their clients in different ways. They communicate with their clients at the beginning of the loan process, during repayment time and at the time of supervision. By considering this the researchers asked some questions related with loan repayment and clients' reasons. The table below indicates the percentage of responses of the employees on this regard.

Table 9. Factors affecting repayment as per employees' perception

Factors	Frequency	Percent
Low financial capacity of clients	22	29.7
Weak loan collection system	4	5.4
Weak client selection system	20	27.0
Lack of willingness from clients to pay their loan	28	37.8
Total	**74**	**100.0**

Concerning the major factors which affect loan repayment, table 9 shows that 37.8% of the respondents have chosen Lack of willingness from clients to pay their loan is the major factor which affects loan repayment. 29.7 % of the employees agreed that, low financial capacity of clients is foremost factor for low repayment rate. Whereas 27% of the respondents blame client selection process for the weakness of loan repayment. Only the minor number of respondents selected weak loan collection system as a major factor.

4.8 Loan Repayment Rate and Lending Method

On the other hand, regarding business loan and non-business loan repayment, table 10 portrays 48.6% of the respondents agreed that the repayment rate on non-business loan is smaller compared to business loan and 48.6% of the respondents believe that group lending is more effective than individual lending in terms of loan repayment. 51.4% of the employees believe that lending for individuals is more successful than that of group lending. In relation to repayment Godquin (2002) stated that, improving the repayment rate could help to reduce the dependence on subsidies and help the MFI reach a better sustainability level. It is also argued that high repayment rates reflect the adequacy of MFI's services to clients' needs and restrict the cross subvention1 of the borrowers. Repayment performance also acts as an important positive signal when the MFI has to raise new funds. For all these reasons, higher repayment rates are largely associated with benefits both for the MFI and the borrower. The MFI will thus firstly tends to reach the first best level of a 100% on the time repayment rate and, if such a level of repayment performance cannot be reached, it will try to allocate higher loans to borrowers with lower probability of default and reduce the delay in repayment.

Table 10. Loan repayment rate and lending methods

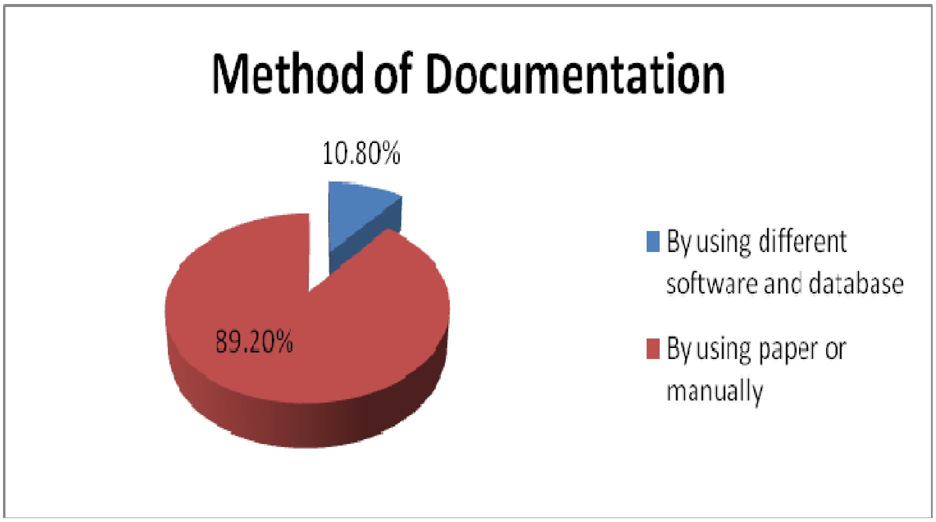
Items	Alternatives	Frequency	Percent
How do you evaluate loan repayment rate?	It is similar to business loan	20	27.0
	The loan repayment is smaller	36	48.6
	The loan repayment is higher	18	24.3
	Total	**74**	**100.0**
Which method of lending is effective?	Group lending	36	48.6
	Individual lending	38	51.4
	Total	**74**	**100.0**

4.9 How to Organize and Store Different Documents

One way of reducing operational cost of microfinance institutions is the application of different technologies during the service provision system. Many researchers also support the use of innovative technologies in the institutions. Fernando (2006) concluded that MFIs must find innovative ways to improve their productivity and efficiency, and reduce operating costs. Essential to this process is cost-reducing innovations. Governments in the region can help to facilitate innovation in the microfinance industry by recognizing and rewarding innovators, thereby encouraging further innovation. Similarly, governments can help ensure that information on more efficient MFIs is disseminated widely.

Some of the selected institutions use different software applications by reducing more of paper works. Those institutions who are using financial software have updated information in their everyday tasks. They are networked with all branches so that they can transfer different data with minimum cost and time. Figure 2 demonstrates that from the total of 74 respondents only 10.8% of the employees are using different software while the majority (80.2%) is using the paper work (manual work) to document and transfer different information within the branch and from branches to head offices.

Figure 2. Percentages of software users



During the interview with one of the institutions, the manager supported that the application of software was raised and he responded that, the institution is not using software, the main reason for this is, the price it costs to install the software. But all the institutions agreed on the advantage of software application. As mentioned above the majority of the employees are degree holders. But the majority of the institutions are not using technologies. Ebisa et al. (2013) also identified that, there is a problem of using modern core finance technologies for many of MFIs specially those microfinance institutions operating in remote rural areas having poor infrastructure development. As a result, there are problems of non standardized reporting and performance monitoring system. In the case of MFIs in Hawassa city, the researchers also observed that, most of the branch offices have only one computer and most of the works are done manually.

4.10 Level of Agreement of Employees on Different Issues

The researchers asked respondents different questions to know their level of agreement and disagreement on different issues. The issues include the client usage of the loaned money, existence of cost effective methods in the institutions, legal issues in the country, profitability of the institutions and loan size given by the institutions. As a result, as table 11 below indicates 58.1% of the employees agreed that most of the borrowers invest the money on income generating activities. From this percent of respondents, around 23% of them agreed in some extent. The other 41.9% of the respondents agreed that, the borrowers use the money they borrowed on non-income generating activities. The employees connected this issue with repayment capacity of respondents. Those borrowers who used the money for business activities have better capacity on loan repayment than their counterpart.

Use of cost effective methods in the institutions helps to minimize different costs. MFIs must find innovative ways to improve their productivity and efficiency, and reduce operating costs. Essential to this process is cost-reducing innovations (Fernando, 2006). In this regard table 11 shows that 24.3% agreed that their institution is using different cost effective methods to minimize costs. 54% percent of the respondents agreed to some extent. The other 21.6 % disagreed on the issue that their institutions are using cost effective methods. In regard to technology, 74.3% of the employees disagreed on the issue of application of modern technologies in the institutions. In conclusion, the application of cost effective methods in the institutions is not strong.

Table 11. Level of agreement and disagreement of employees of MFIs on different issues

No	Item	Agree		Somehow agree		Disagree	
		No	%	No	%	No	%
1	Clients use the money for income generating activities	26	35.1	20	23	31	41.9
2	Cost effective methods used by the institution	18	24.3	40	54	16	21.6
3	Application of different technologies	4	5.4	15	20.3	55	74.3
4	Legal issues of the country to support MFIs	34	45.9	38	51.4	2	2.7
5	Precondition to serve the poor	34	45.9	12	16.2	28	37.8
6	The amount of the loan given by the institution	22	30.2	32	43.2	20	27
7	Number of employees relative to the service given	20	27.1	14	18.9	40	54.1
8	Loan collection system in the institution	30	40.5	12	16.2	32	43.2
9	Pre and Post monitoring and evaluation of clients	31	41.9	16	21.6	27	36.5

The legal condition of microfinance institutions matters the performance and profitability of microfinance institutions. According to Ethiopian Micro-Financing Business Proclamation No. 626/2009, micro finance institutions have got the legal coverage. But the implementation of such proclamation might face different challenges. Concerning the legal support of MFIs 97.3% of the employees agreed positively. From the total percent of the agreed employees 51.4 of them agreed to some extent. This indicates that there is comfortable legal structure in the county for microfinance institutions.

The amount of the loan given by MFIs varies with institution to institution and the level of creditworthiness of clients. In this regard, as table 11 above shows, 39.2% of the clients were disagreed on the amount of loan given by MFIs. From the employees' side, 73% of the respondents agreed that the loan size given by MFIs is enough to the clients. 27% of the respondents disagreed. Both the majority of borrowers and employees agreed that the loan size is sufficient to the poor borrowers. But there is a considerable amount of clients and employees disagreed on the loan size. As mentioned earlier the loan size affects both the institution and the client's performance. It is known that money value has been declined today. In order to get high amount of loan from conventional banks, in most cases the poor is not eligible due to lack of collateral.

In order to get the loan from microfinance institutions, the borrowers are expected to pass some steps. The steps vary with the institutions. The preconditions of most of the institutions to be eligible for the loan include having business license, preparing business plan, offer clearance of a loan from other institution, submit a certificate that shows the marital status of the borrower, and have a collateral or salary guaranty proportional to the loan size, fill application form and some other processes. The duration to get the loan is also different from institution to institution. Concerning the preconditions of the institutions, table 11 depicts that 62.1% of the respondents agreed that the precondition to get the loan is easy and short. On the other hand, around 38 % of the employees disagreed on duration and the requirements needed before the loan disbursement. This indicates that, for a significant number of clients, the requirement of microfinance institutions is not comfortable. Some of the necessities are also not affordable to the poor. Such requirements can affect two important things. First, the shift of clients from one institution to another and second it can make the clients to be reserved from getting such service from MFIs. These problems affect the outreach and the breadth of the institutions in different ways.

When the number of clients increase it is clear that the workload of the employees in MFIs is also will increase. Having enough number of employees is necessary to perform in a proper manner. On the issue of the number of employees and the work load of the institution, as table 11 portrays, the highest portion of the employees (54.1%) disagreed on proportionality of employees and the work load. Around 46% the employees agreed that their institution has enough number of workers relative to the work load. The researchers interview and observation result indicated that, in some of the institutions' branches the structure allows to have 15 employees, but only 6 or 7 employees are working in the office. The work environments of some offices are not comfortable for work. On the other hand, those branches with full employee, according to the structure, have another problem. There are too many workers with one small room.

In the area of monitoring and evaluation of borrowers, 63.5% of the employees agreed that their institutions established strong monitoring system of borrowers. 21% of the agreed employees indicated that their agreement is to some extent while 36.6% of the respondents disagreed that their institution has strong monitoring system for clients. Koveos and Randhawa (2004) stated that limited resources and the sheer numbers of borrowers preclude assessment of individual loan applications. To create a sustainable self-funding, growing MFI, the challenge then is to design a system which will lower monitoring costs, create a committed and creditworthy client base, and help poverty alleviation. Their loan portfolios are likely to be more volatile, the potential for a loss of capital significant. There is a need for close and continuous monitoring, and for the establishment of mechanisms to assess, continuously monitor credit worthiness, and for early detection of problem loans. Even though the finding shows that the majority of the employees agreed on the existence of the monitoring system, a significant number of employees disagreed on the issue. This implies that, there is a gap in terms of monitoring and evaluation of client's condition. The interview result also indicated that due to lack of sufficient number of employees in the institutions it is difficult to monitor clients in a continuous manner.

5. Conclusion and Recommendation

5.1 Conclusion

1. The performance of Microfinance institutions in Hawassa city varies from institution to institution. Different institutions faced different problems which affect the performance their institution. Clientele factors like diverting the loan to non business activities, borrowing experience of clients, amount of money invested in income generating activities, factors related to loan repayment, absence of voluntary saving experience, business condition of the borrowers are the major factors which affect the performance of the MFI. Some of this clientele factors affect the institutions severely the others to some extent.

2. On the other hand, institutional factors such as absence of training for borrowers, weak monitoring and support system, interest rate of micro finance institutions, uncomfortable loan repayment schedule, loan size, loan capital shortage, training provision to employees and clients, lack of use of technology and cost effective methods, human resource problem, loan capital problem, lack of strong loan collection system in the institutions affect the performance of the institutions in different degree.

3. In addition, the political environments of the country, such as the legal framework for MFI and economic level of the country also have effects

on the MFI's performance. The proclamation on MFIs for instance, issued how MFIs perform their activities and the areas in which MFIs participate. If the existing rule in the country is not comfortable for the institutions it may affect their performance. In this regard the researchers conclude that the existing political environment and economic level of the country is comfortable for MFIs.

4. Many of the factors are interrelated and interdependent. That means the existence of one factor affect the other factor both positively or negatively. For instance failure of clients on repayment is linked with the failure of their business and weak loan collection system. If the repayment rate is low, it affects the loan capital of the institutions. The problem of loan capital can affect the loan size and the number of clients served. Many of the factors show similar relationship. As a result, the interdependence of most of the factors leads the institutions into success or failure. If they are positively interrelated, the factors may lead the institutions into success and if they are negatively interrelated they will affect the institution's success adversely.

5.3 Recommendations

Based on the findings and conclusion of the study, the researchers suggested the following recommendations to improve the performance of microfinance institutions in Hawassa city.

5.3.1 Recommendation for the Institutions

- Women are the most vulnerable group of the society. They are the first target of microfinance institutions. But in the selected MFIs, participation of women is very limited. In order to achieve MFIs' objectives, it is expected to create different systems that encourage the involvement of women in microcredit and saving services. Arrangement of different types of loan for women with lower interest rates, with minimum collateral and other requirements can improve the participation of women in microfinance services. In addition to this supporting the loan with different trainings can strengthen the capacity of women to be active clients and to repay their loan according to the institutions repayment schedule.

- In order to solve problems related to clients like diverting the loan to non business activities, amount of money invested in income generating activities, factors related to loan repayment, absence of voluntary saving experience, business condition of the clients, it is better to have continuous monitoring system for clients to support the borrowers by working with different concerned bodies. For instance, micro and small enterprise office facilitate different trainings for micro businesses and arrange market for them. So through working with different concerning bodies, the institutions can solve many problems with minimum cost.

- Insufficient amount of human resource is the other major problem in the selected MFIs. By considering the number of clients it is better for the institutions hire an adequate number of employees to use them as a means to facilitate monitoring, to mobilize saving, to give training and so on.

- The interest rate of MFIs higher specially, in some of the institutions. Some of the institutions also use the outdated financial system that is not cost effective. In order to reduce operational cost of microfinance institutions as well as to reduce the interest rate, the researchers suggest application of cost effective and modern technologies which support the institutions to reduce different costs. Different software and databases to handle financial data and to communicate with branches and to register all transactions in a well-organized way, MFIs should use technologies.

- Loan capital shortage, loan size and loan repayment schedule are considered as the main problem seen from institutions point of view. In order to solve such problems the first option is to accelerate repayment by encouraging the clients by providing different incentives for them to pay according to the schedule and arranging special repayment schedule for special business. It will reduce loan losses or loan at risk.

5.3.2 Recommendation for the Government

At the national level, by considering the role of microfinance institutions for poverty alleviation, the researchers recommend the government to provide sufficient amount of loan with lower interest rate for those MFIs with the problem of loan capital. This helps the institutions to increase their loan size and to increase the number of poor served by the institutions.

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