



# Outreach and Financial Performance of Microfinance Institution in Case of Seka Cokorsa Woreda of Jimma Zone

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The MF industry as a whole is challenged by the need to reach the poorest customers and at the same time being financially self sufficient. Although the industry as a whole is growing at a faster pace still the two critical questions of reaching the poor and building a financially sustainable MF industry that walk on their own leg freely are empirical questions. This research paper, although will not solve these crucial questions, will at least contribute to the other researchers, practitioners and policy makers by showing where the seka's MFIs are lying on the outreach to the poor, sustainability, and a couple of other performance dimensions.

Secondary and primary are used in conducting this paper. Those data for the research was taken from some written material, website and sample respondents. For data analysis, we were use descriptive statistics, graphs and charts. There some factors that affect micro finance institution not to perform its objectives effectively and efficiently. The study also includes the presence of several challenges that constrain the MFIs operation not to be efficient.

**Keywords:** *outreach, financial performance.*

**GJMBR-C Classification :** *JEL Code: G21*



*Strictly as per the compliance and regulations of:*



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## I. INTRODUCTION

Microfinance institutions (MFIs) in sub-Saharan Africa include a broad range of diverse and geographically dispersed institutions that offer financial services to low-income clients especially in developing (least developed) countries. African MFIs appear to serve the broad financial needs of their clients. Ethiopia is one of the least developed sub Saharan countries. The per capita income of the country, though it showed improvement in recent years, is only USD 380 as at end of 2013. This is very little money to cover daily meal, let alone health, education and other emergency expenses, which make the poor venerable to unforeseen illness expenses and others. There is also high level of unemployment even with the skilled labor force. For instance, according to 2004

World Development Indicators, out of the total unemployment of the active labor force 26.9, 61.3 and 8.3 percent have complete primary, secondary, and tertiary education, respectively. And, this unemployed population is increasing from time to time as the population of the country is increasing (befekadu, 2007).

It is also the experience in the country that the poor households are the main participants in some kind of informal sector ranging from small petty trading to medium scale enterprises (befikadu, 2007). And due to the fact that this sector uses intensive labor force and as well since it is the livelihood of most of the poor, developing this sector argued to be a weapon to resolve the problem of unemployment and poverty of a household (befekadu, 2007).

Several studies noted different causes for poverty in a country. Some argued that the cause of poverty in developing economies among other things is that the poor does not have access to credit for the purpose of working capital as well as investment for its small business (befekadu, 2007). To this end many developing economies have developed and have been providing credit to the poor through microfinance schemes. The experience of several Asian, African as well as Latin American countries could be a typical example for this. In Ethiopia, several micro finance institutions (MFIs) have established and have been operating towards resolving the credit access problem of the poor particularly to those participates in the petty business.

Micro financing is the provision of financial services to the poor households as a means of assisting in poverty alleviation programs among the communities. The primary objective of Microfinance institutions is the outreach to the poor by providing financial services in a sustainable base. Microfinance projects were originally entirely donor funded with limited budgets, limited time period, limited economic activity and limited geographical location (letenah, 2009). While the going concern of microfinance projects was limited, the poverty levels and financing needs among the communities was unlimited. There were growing needs for financial services among the poor communities especially from those who were financially constrained and vulnerable but have feasible and promising investment ideas (Morduch, 2005; Morduch & Haley, 2002) cited by (letenah, (2009). Microfinance institutions arose as a

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way to ensure the continuous provision of microfinance services to the poor beyond the donor budgets and the time limit of microfinance projects. The new hope brought by the rise of Microfinance institutions among the poor communities as a continuous source of finance did not last longer.

a) *Objectives of the study*

The general and overall objective of this study is to investigate the outreach and financial performance of microfinance institutions in case of sakka cokorsa woreda of jimma zonne. The study Specifically aims to know MFIs outreach to the poor, assess the financial sustainability MFIs, identify the related methods of performance measurement of micro finance institution.

II. MATERIALS AND METHODOLOGY

a) *Research design*

The selected design to conduct this research was both quantitative and qualitative descriptive survey. Quantitative can be used to get numerical information while that of qualitative is used to get some non numerical information. But our design was mostly qualitative survey. Interview schedule were prepared to collect data from participants. Questions were framed in a way that is easy to understand for the respondents using simple words or expressions. Difficult technical terms are avoided.

b) *Sampling technique and sample size*

We have selected the purposive sampling of the non probabilistic technique in which the respondents are selected by choice but not by chance. Jimma zone is selected purposively, from jimma, zone seka cokorsa district is chosen and from towns of seka cokorsa woreda sakka town is selected based on the availability of information about the outreach and financial performance of microfinance institution. The researches use this technique to select some individuals that have detail

i. *Eshet microfinance institution*

information about the outreach and financial performance of their companies and give information correctly. In determining the sample size of the respondents, the reearcher have 30 clients from each institution for responding our questionnaires so we have 60 total respondents.

c) *Source of Data and Data Collection Method*

Both types of data i.e. primary and secondary data are used in conducting this study. The investigators have got secondary data from some sources such as the annual financial reports of MFIs, data from books, journals. And we have got the primary data from the sample respondents that are selected through purposive sampling technique through the questionnaires. We have used an interview to get detail information about the micro finance from the manager of the micro finance. To increase the reliability of data, audited annual reports will be used.

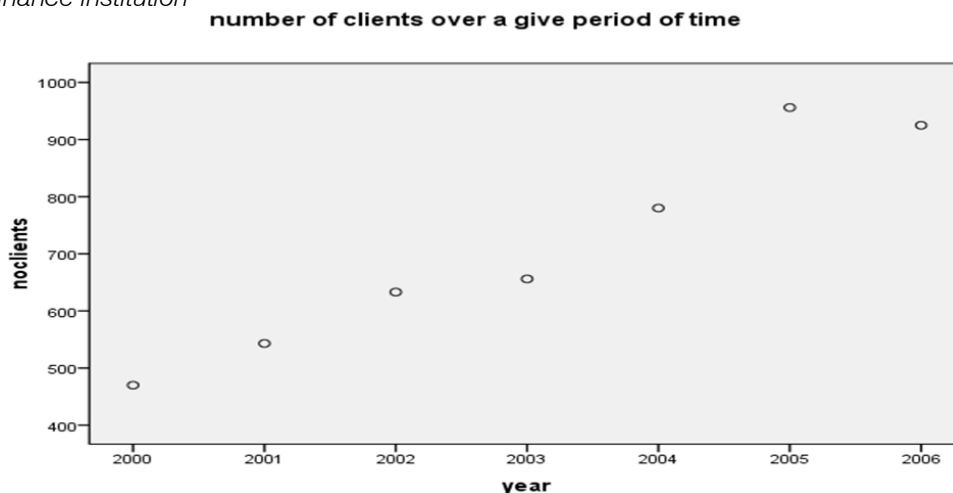
d) *Method of data analysis*

The method of analysis used in the study is descriptive statistics, graphs and charts. In this study descriptive analysis were chosen because of its simplicity and clarity to draw inferences. Averages, percentages, diagrams, charts and tables of microfinance institutions, the performance of microfinance institutions and challenges of the micro financing industry were analyzed.

III. RESULT OF THE STUDY

a) *Breath of outreach*

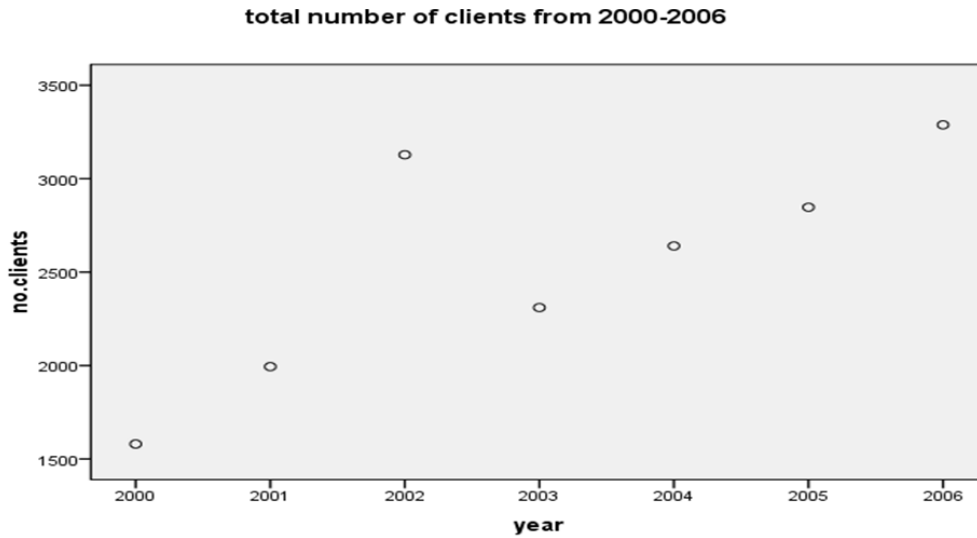
Breath of the outreach means the total number of clients including poor and non poor households that are served over a given period of time in certain micro finance institution. The breaths of outreach of two microfinance institutions were shown below in the form of graph.



Source: own survey

Figure 1 : Number of clients of eshet micro finance from 2000-2006

ii. Oromia credit and saving institution S.C



Source: own survey

Figure 2 : Total number of clients of Oromia saving and credit association S.C from 2000-2006

Generally Oromia saving and credit association serves large number of clients when it is compared to that of Eshet micro finance institution. The clients of Oromia saving and credit association increases by higher percentage than Eshet microfinance institution from 2000-2006 period. So in terms of breath of the outreach Oromia saving and credit association is better than Eshet.

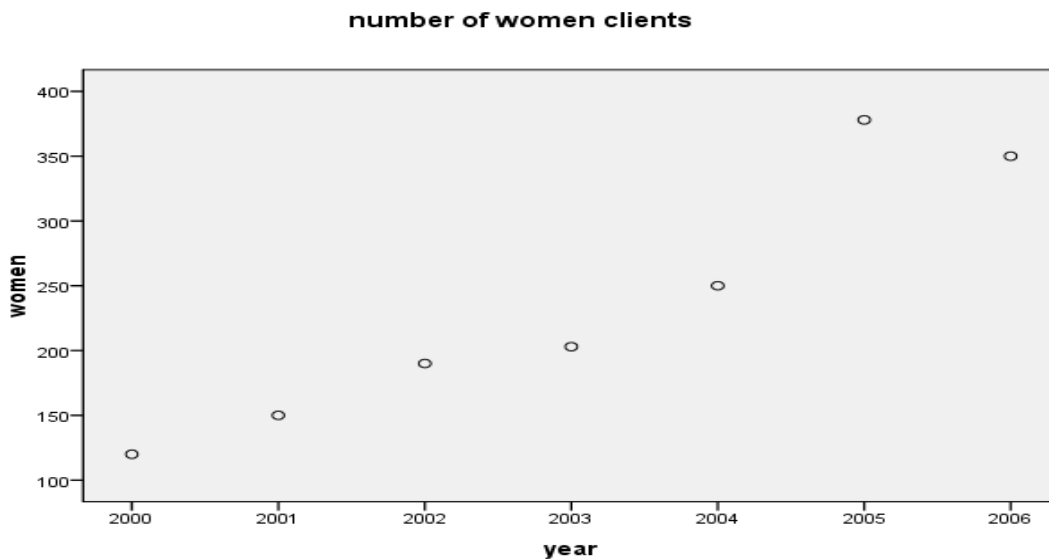
microfinance institution over a given period of time. It also measures if there is affirmative action in certain microfinance institution for previously affected groups such as women; disabled people etc. for instance let us see depth of clients in terms of poor clients and women served over a given period of time.

b) Depth of the outreach

This aspect of outreach measures the total amount of poor clients that are served in certain

i. In terms of women clients

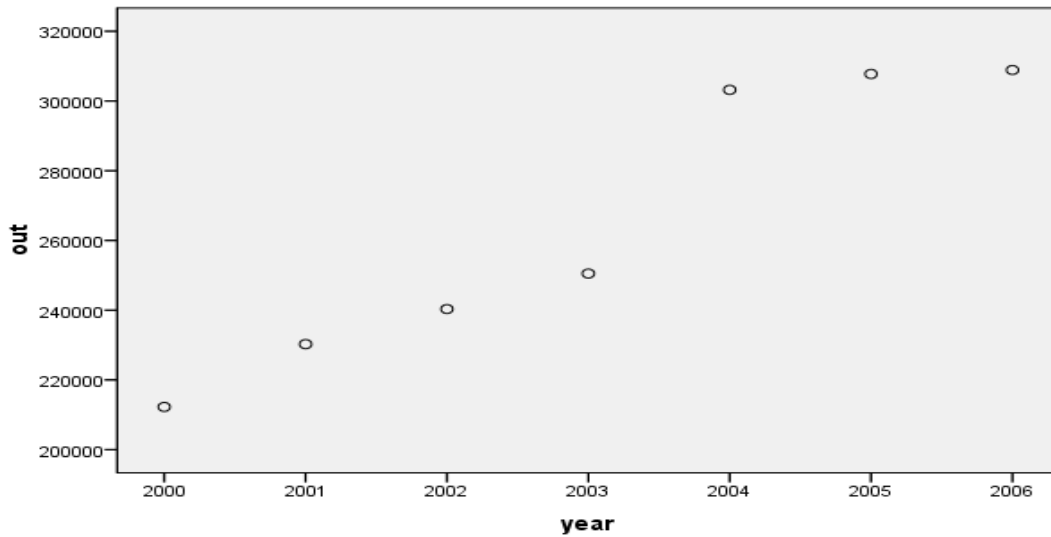
a. Eshet micro finance institution



Source: own survey

Figure 3 : Total number of women clients of Eshet MFI from 2000-2006

women outstanding over a given period of time



Source: own survey

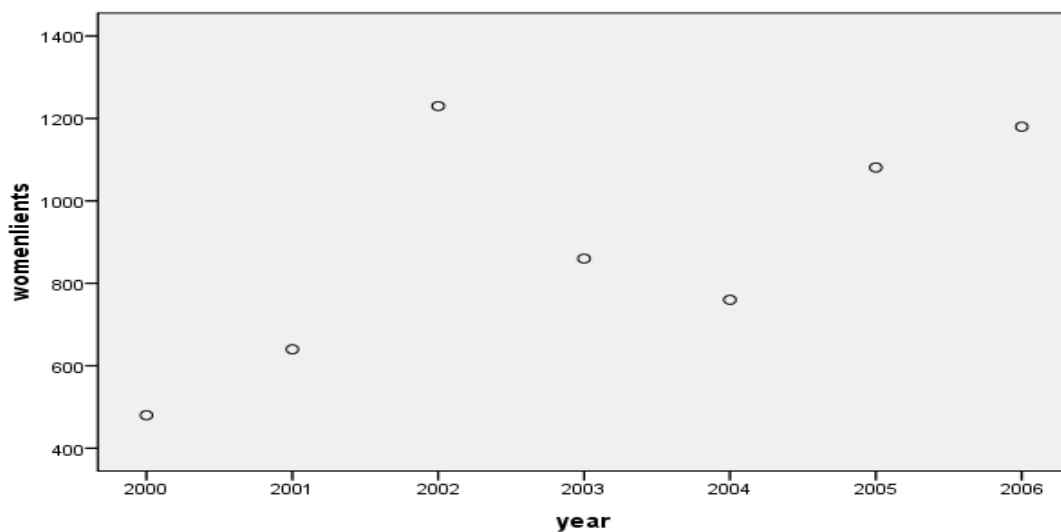
Figure 4 : Women's outstanding in Eshet microfinance from 2000-2006

b. Oromia credit and saving institution S.C

Oromia credit and saving association does not have affirmative action. Even if there is no affirmative action in this micro finance institution the number of women clients and their outstanding is increasing from time to time. When we compare this micro finance institution with Eshet micro finance institution it serves

large amount of women clients and its outstanding is also very large. The number of women clients in Oromia saving and credit association increases more than that of Eshet microfinance in the period from 2000-2006 this indicates that Oromia saving and credit association have more performance than that of Eshet micro finance institution in serving women clients.

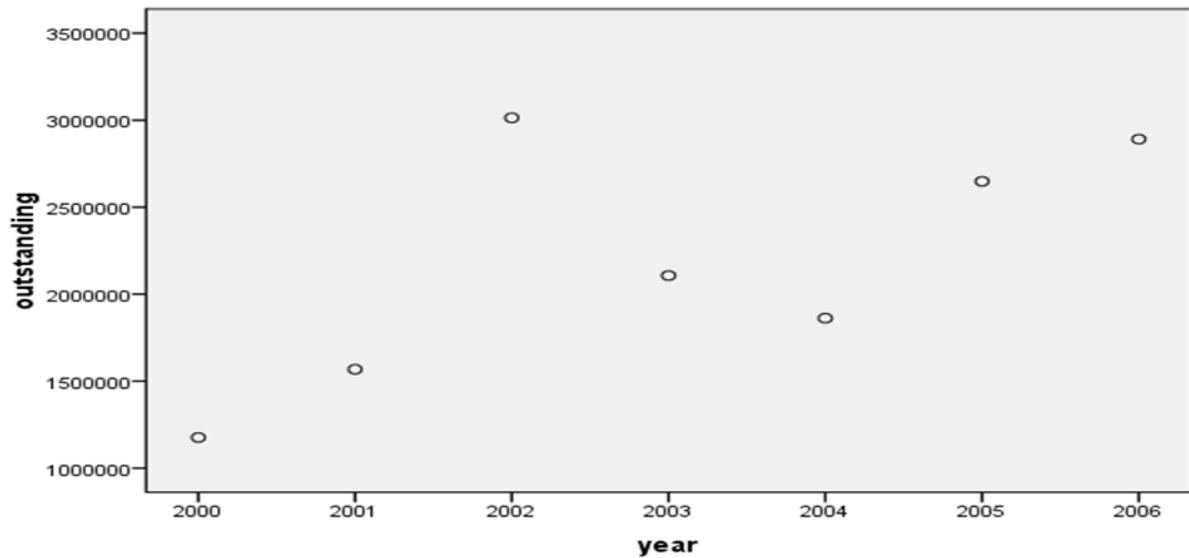
total number of women clients from 2000-2006



Source: own survey

Figure 5 : Total number of women clients in OCSA.S.C from 2000-2006

**total outstanding of women clients in oromia MFI from 2000-2006**



Source: own survey

Figure 6 : Total outstanding of women clients in Oromia MFI from 2000-2006

ii. *In terms of income of the clients*

What is the level of your income when you are joining this micro finance institution?

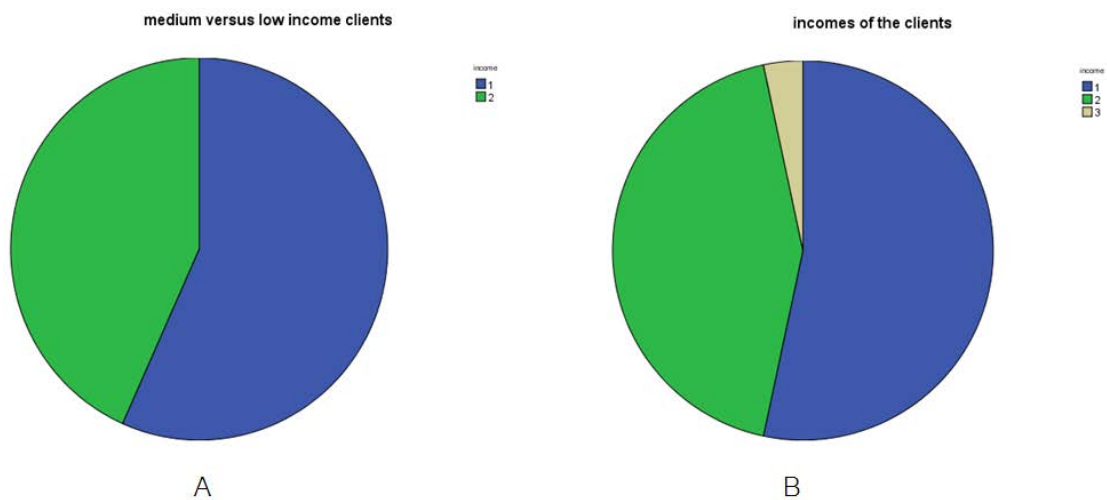
a. *Eshet micro finance institution*

In terms of income of the clients this micro finance institution serves low income clients more than that of high income and medium income clients. Even if the objective of micro finance institutions is poverty alleviation in the country through giving credit and saving service to the low income community, this micro finance institution serve some amounts of medium income clients. Our sample survey indicates that there

are more poor clients served in this micro finance than that of medium income clients. Our survey indicates that 56.66% of clients are poor while 43.334% of clients are medium income clients. So this institution has somewhat good performance.

b. *Oromia saving and credit institution S.C*

This micro finance also serves more of low income clients than that of high and medium income clients. For instance Oromia microfinance institution serves 53.33%, 43.33%, 3.33%, of clients of low income, medium income and high income respectively.



Source: own survey

Figure 7 : A income arrangement of the clients in Eshet MFI  
B income arrangement of the clients of OCSA.S.C

NB: 1 = low income clients  
 2 = medium income clients and  
 3 = high income clients

When we compare two micro finance institutions Eshet micro finance is better than Oromia micro finance institution in serving low income clients. This means 56.333% of low income clients of Eshet microfinance is greater than that of 53.33% of that of low income clients of Oromia saving and credit association S.C.

c) *Financial sustainability*

It is difficult to measure financial sustainability of MFIs, as almost all MFIs are subsidized, where some

subsidies are in kind form. Nevertheless, alternative measures were used to assess financial sustainability of MFIs in this study.

d) *Current ratio*

Probably the best-known liquidity ratio is the Current Ratio, the quotient of current assets and current liabilities. Primarily this ratio is not recommended for MFI. In this case, there is recorded data in Eshet micro finance institution. The Oromia credit and saving association S.C current ratio in this year is given below in the table form.

Table 1 : current ratio of Oromia credit and saving association

Year	Current asset (in million)	Current liability ( in million)	Current ratio( in million)
2006	9	3	3

Source: own survey

The above table indicates that in this year the current ratio of OCSA.S.C is greater than one. This condition is favorable for microfinance institution because the company has the ability to recover its liability and it is under a profitable condition.

central bank to the total asset base of the institution: This ratio obviously ranges between 0 and 1, where a larger proportion of cash implies that the institution is in a stronger position to handle immediate cash needs. Let us see the cash position indicator of OCSA.S.C in 2006 below in table form.

e) *Cash position indicator*

The cash position indicator compares vault cash and demand deposits at other banks including the

Table 2 : Cash position indicator of OCSA.S.C in 2006

Year	Total asset in million	Cash and deposit due from banks in million	Cash position
2006	9	3	0.333

Source: own survey

The above table indicates that the cash position indicator of OCSA.S.C is less than one and is small. So cash of the company is not in stronger position this year to handle immediate cash needs.

**Capacity Ratio = Net loans \Total assets.**

The capacity ratio indicates the extent to which an institution has loaned out its funds; the higher the capacity ratio, the lower the institution's liquidity. The capacity ratio of oromia credit and saving association in 2006 year is indicated in the table below

f) *Capacity ratio*

The mirror image to the cash position is captured by the capacity ratio, which should be understood as a negative liquidity indicator:

Table 3 : capacity ratio of OCSA.S.C in 2006

Year	Net loan in million	Total asset in million	Capacity ratio
2006	8	9	0.8888

Source: own survey

The above table indicates that the capacity ratio of OCSA.S.C in 2006 is lower this implies the higher institution's liquidity because the institution loaned the small amount out of its total asset.

its fund not from government or NGO but it finance from the customer deposit. So this a god measure of performance of this microfinance. The total deposit ratio of OCSA.S.C in 2006 is given below.

**Total Deposit Ratio = Total customer deposits \Total assets**

g) *Total Deposit Ratio*

A large base of retail deposits would be evidenced by a high total deposit ratio. OCSA.S.C gets

Table 4 : Total deposit ratio of OCSA.S.C in 2006

Year	Total customer deposit	Total asset	Total deposit ratio
2006	4898	9000000	0.00054422

Source: own survey

The higher the total deposit ratio, the lower is the perceived liquidity risk because contrary to purchased funds, retail deposits are less sensitive to a change in interest rates or a minor deterioration in business performance. As indicated on the above table in case of total deposit ratio this micro finance is not at a good position because the total deposit ratio is very small. So there is higher perceived liquidity risk.

loan size to the client over a given period of time increases then that micro finance said to have good performance and in a good profitable condition. First let us see the loan that is given to the new customer over a given period of time in table form.

h) *Financial sustainability in terms of loan size to the clients*

Loan size is one measurement of the financial sustainability of certain micro finance institution. If the

i. *Eshet*

Table 5 : loan size of the new customer from 2000-2006 periods

Year	Loan size of new customer
2000	1500
2001	2000
2002	2000
2003	2500
2004	2500
2005	2500
2006	3000

Source: own survey

The above table indicates that the loan size for new customer is increasing over a given period of time. Thus even if the increasing rate is somewhat small Eshet micro finance institution is at good financial performance. When we see the average loan size of

sample respondents in Eshet micro finance, this year this institution gives average loan size of 3650 birr per individual. The average loan size of the clients in 2006 in Eshet micro finance institution is indicated in the fig below.

average loan size of Eshet micro finance institution in 2006

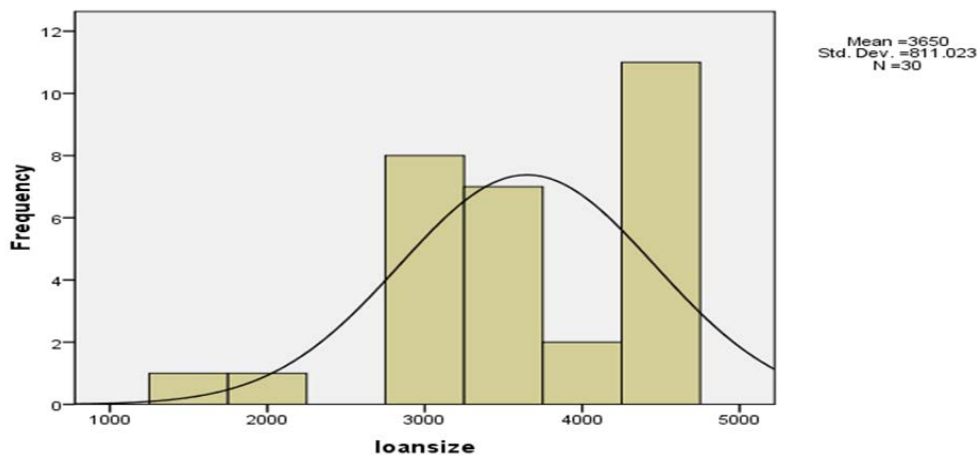


Figure 8 : average loan size of Eshet micro finance in 2006 year

ii. *Oromia credit and saving association S.C*

In Oromia credit and saving association the loan size to new customer is increasing from time to time. The increment may be due to some reasons such

as inflation, customer improvement and the financial sustainability of the microfinance. Anyhow Oromia microfinance institution increases its loan size to the new customer in the period if study (2000-2006).



**Table 6 :** loan size to the new customer from 2000-2006 periods in OCSA.S.C

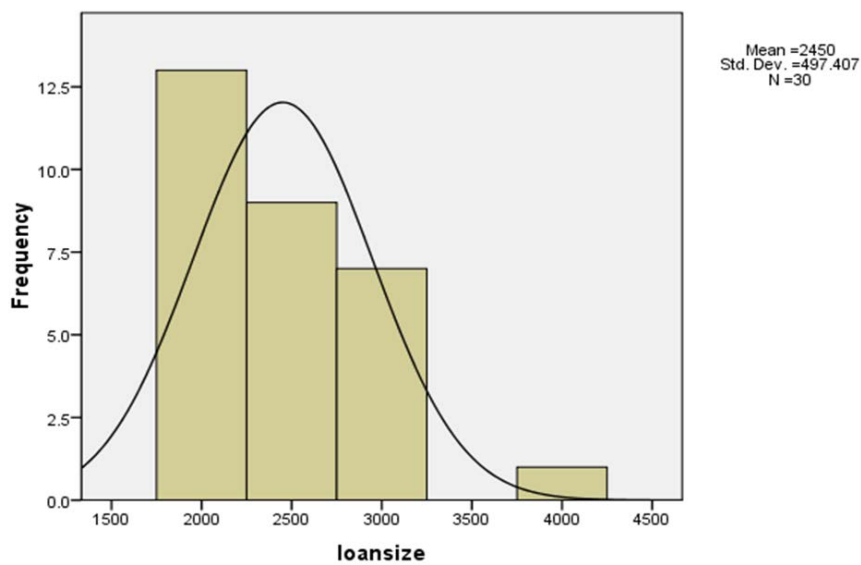
Year	Loan size to the new customer
2000	1500
2001	2000
2002	2500
2003	2500
2004	2500
2005	2500
2006	3000

Source: own survey

The above table indicates that the loan size is increased even if the increment rate is still limited. When

we see the average loan size of sample respondents in oromia credit and saving association S.C this year this institution gives average loan size of 2450 birr per individual. This is little birr when it is compared to that of eshet micro finance institution. The average loan size is less than that of loan size of the new customer in this year which is 3000 birr per individual. This is due the willingness of the clients to take the amount that the microfinance planed to give them. As indicated so far most of the clients of this microfinance institution are low income clients and they do not want to take large loan size to overcome the challenge of repayment. Let we see the average loan size of this fiscal year in graph form.

**average loan size of the clients in OCSA.S.C in 2006**



Source own survey

**Figure 9 :** average loan size of OCSA.S.C in 2006

i) *Financial sustainability in terms of outstanding of the clients*

Outstanding to the client is one of the best indicators of the financial sustainability of microfinance institution. Increment in outstanding of the outreach may come from two sources i.e. from the increment in the loan size to the client and from the increment in the number of the clients. Even though the number of clients is increasing over time in both microfinance institutions, their loan size is also increasing over a given period of time. The indicator of this is that both microfinance institutions lend different loan size in the different fiscal year for the new clients. Let us see outstanding of each microfinance institution over a given period of time.

i. *Eshet*

In Eshet micro finance institution the outstanding to the clients is increased from 2000-2006. Let us see this below in table form.

**Table 7 :** total outstanding of Eshet microfinance institution from 2000-2006

Year	Total outstanding of the clients
2000	868330
2001	929330
2002	948100
2003	1060321
2004	1106500
2005	1347825
2006	1709390

Source own survey

The table indicates that amount of the outstanding of the clients are increasing from time to time dramatically. So the institution is at a good financial performance in satisfying the need of the clients.

ii. *Oromia saving and credit association S.C*

As that of Eshet microfinance institution Oromia saving and credit association also increases the clients outstanding dramatically from time to time. This indicates the financial viability of the microfinance. Le we see it in the table form below.

**Table 8 :** Total outstanding of Oromia credit and saving association S.C from 2000-2006

Year	Total outstanding of the client
2000	3871000
2001	4885300
2002	7663600
2003	5659500
2004	6468000
2005	6975150
2006	8055600

Source: own survey

The above table indicates that the amount of outstanding to the clients is increasing from time to time. So this micro finance institution is at a good financial position in helping the community.

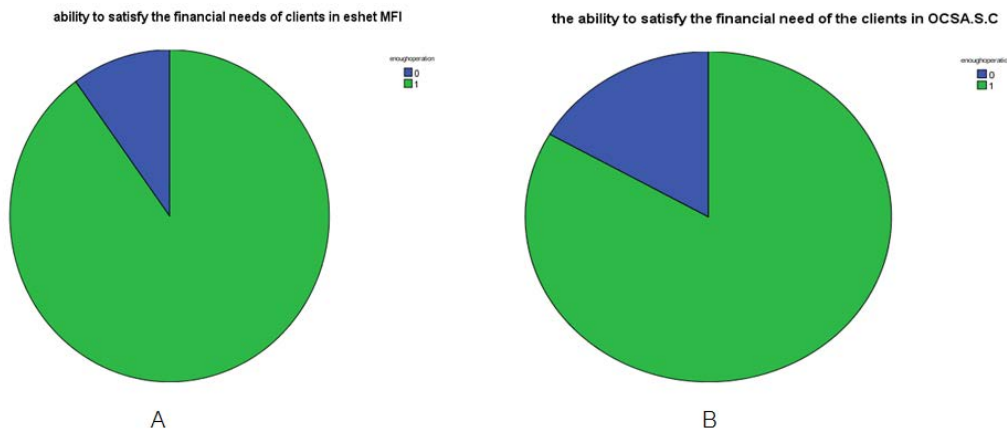
When we compare the outstanding of the two microfinance institution, Oromia gives high amount of loan to the customer to its clients. The difference might be come from the difference in the number of clients

and difference in the loan size of the customers. Anyhow Oromia saving and credit association S.C has more outstanding every year than that of Eshet microfinance institution.

j) *Financial sustainability in terms of satisfying the financial needs of the clients*

Giving the loan that satisfies the financial need of the customer is another indicator financial sustainability of micro finance institution. If the micro finance has the ability to supply sufficient amount of credit at the time the customer need then the companies said to have good performance.

Eshet microfinance institution said to have a good performance in satisfying the financial needs of the clients. Out of the total respondents about 90% of the clients get the loan that is enough to their operation. As that of Eshet, Oromia saving and credit association S.C has an ability to satisfy the financial need of its clients. Our survey indicates that out of total respondents about 83.333% get the credit that is enough for their operation in Oromia credit and saving association S.C. This indicates that both micro finances have enough amount of capital at every time and has the ability to lend up to the needs of the customer. But when we compare the two micro finance institutions Eshet has more performance in satisfying the financial needs of the clients.



Source own survey

**Figure 10 :** A the ability to satisfy the financial needs of the clients in Eshet micro finance institution  
 B the ability to satisfy the financial needs of the clients in OCSA.S.C

NB: 1 =the clients that get enough amount of credit for their operation  
 0=the clients that did not get the amounts of credit for their operation

k) *Welfare impacts of the clients*

As discussed in chapter two welfare impacts is one way of measuring the performance of micro finance institution. Welfare impact of the service of the

microfinance is measured by asking the client's whether they continue to use the service of micro finance or not.

Table 9 : welfare impacts of the clients

Question	Oromia		Eshet	
	Yes	No	Yes	No
Did you want to continue as the member of this micro finance institution?	86.7%	13.3%	50%	50%

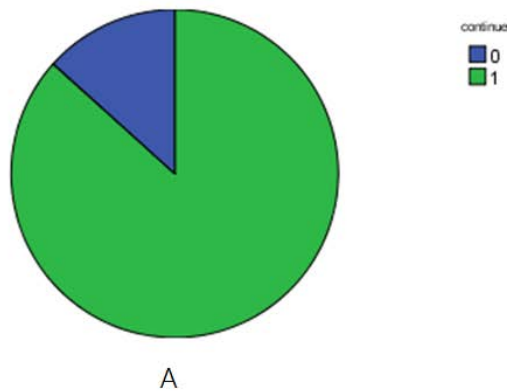
Source: own survey

The above table indicates that in Oromia credit and saving association S.C out of the total respondents about 86.7% of the respondents are willing to continue to be served in this micro finance institution. The remaining 13.3% of the respondents are not willing to continue as the member of this micro finance institution. When we see that of Eshet micro finance institution out of total respondents only about 50% are willing to continue as the member of this micro finance institution. The remaining 50% of the clients do not want to take the service of this micro finance institution. When we compare the two micro finance institution the Oromia saving and credit association S.C is better in principles of welfare impact performance indicator of the

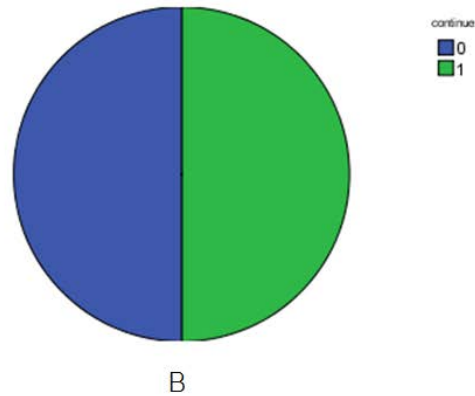
microfinance institution. In Eshet microfinance institution half of the clients did not want to continue as the member of the microfinance institution; this because of they become self sufficient and they want to perform their operations with their own capital. There are also other reasons behind the high default rate in the Eshet microfinance institution. They are;

- ✚ Ineffective repayment enforcement mechanism;
- ✚ Absence of effective group pressure or collateral;
- ✚ Negligence of clients;
- ✚ Crop failure in rural areas;
- ✚ Sickness of the borrower or family member; and
- ✚ Bankruptcy in the business of clients, etc.

clients wefare impact in oromia MFI



welfare impacts of the clients in eshet MFI



Source: own survey

Figure 11 : A welfare impacts of the clients in OCSA.S.C  
B welfare impacts of the clients in Eshet microfinance institution

NB: 1=number of the client that are willing to continue as the member of micro finance  
0= number of the clients that not willing to continue as the member of the micro finance institution.

Table 10 : interest rate in average loan in Oromia and Eshet micro finance institution

Sector	Interest rate in Oromia (%)	Interest rate in Eshet (%)
Rural agriculture	15	24
Urban employee	10	18
Business	10	18

Source: own survey

The above table indicates that there is high interest rate in Eshet than in Oromia. So Oromia is better in balancing the customer benefit and its profit.

nts about the credit delivery system and their response is in the table blow.

1) Credit delivery system

Credit delivery system means the period taken by the financial institution for delivering of loan to their clients. The researcher asked the question to responde-

Table 11 : response of the clients to credit delivery

Question	Oromia		Eshet	
	Yes	No	Yes	No
Did you get loan on time?	83.333%	16.33%	100%	0%

Source: own survey

The above table indicates that both micro finance institutions have a good performance in delivering the loan to their clients on time. When we compare the two, Eshet micro finance institution is better than Oromia.

m) Performance of micro finance institution in terms of Client improvement

What is the level of your income before you join this micro finance institution?

What is the total level of your income after you join this micro finance institution?

As indicated in chapter two the aim of micro finance is to improve the living standards of the society through providing the financial need of the clients. In this aspect both microfinance institutions show the considerable change on the level of incomes of the clients.

Table 12 : income level of the clients before and after joining the microfinance

Micro finance institution	Level of income before joining micro finance			Level of income after joining microfinance		
	low	medium	High	Low	medium	high
Oromia	53.33%	43.33%	3.33%	0%	96.66%	3.33%
Eshet	56.66%	43.33%	0%	0%	86.7%	13.3%

Source: own survey

The above table indicates that in Oromia credit and saving institution S.c there is some improvement in terms of client's level of income. For instance 53.33% 43.33%, 3.33%, of clients are low income, medium income and high income respectively before they start to be served in this microfinance. But now they income position is improved. 96.66% and 3.3% of the total respondents are medium and high income clients after they join the Oromia credit and saving association S.C. when we compare before and after membership there is considerable change.

Eshet microfinance also brings a change of the welfare of the clients. Out of total respondents 56.66% of clients are poor while 43.334% of clients are medium income clients before joining this micro finance. But after the join this micro finance the income of the clients is increases. Thus, out of our respondents 86.7% percents of the clients become medium income clients and 13.3% of the clients become high income clients in

this micro finance institution. Generally not only the income the following aspects of the clients are also improved after the join this micro finance institution.

- ✚ They totally creates their own source of income;
- ✚ They advances\improves their expenditure patterns;
- ✚ They improves their standards of living, (educate their children, construct new house buy a pair of oxen etc)
- ✚ They expand or extend their agricultural production size\volume.

n) Improving the saving habits of the clients

The other related indicator of the performance of microfinance institution is improving the saving habit of the clients. The saving habits of the clients before joining micro finance and after joining microfinance is indicated in table below

Table 13 : saving habits of the clients

Question	Oromia		Eshet	
	Yes	No	Yes	No
Did you have saving habit before you join this micro finance institution?	0%	100%	3.33%	96.77%
Did you have saving habit after you join this micro finance institution?	100%	0%	100%	0%

Source: own survey

The above table indicates that both micro finance institutions show a considerable change on the saving habits of the clients. For instance in OCSA.S.C 0% of the clients has saving habit before joining the microfinance. But after they join the micro finance all of

clients (100%) of the clients start to save their incomes. This indicates that OCSA.S.C is making a great influence in saving habits of the clients. In cases of Eshet micro finance only 3.33% of the clients have saving habit before joining the micro finance but after

they join all of the clients (100%) of the clients start to save. This indicates that micro finance has a great role in improving the saving habits of the clients which is the source of capital and finally a key for economic development of the country.

*o) Asses to credit before joining*

The clients of both Oromia and Eshet micro finance institution did not get the credit service from any other institutions such as banks, village money lenders and relatives and friends. This is because of the following condition.

- ✚ High interest rate on their loan
- ✚ Lack of finance to perform their operation
- ✚ Shortage of repayment time; this means the give their loan for only two month up to six month.
- ✚ Lack of awareness about the significance of the loan or credit service is also another challenge that hinder them from taking the credit from monetary institution

*Table 14 : credit access of the clients before joining micro finance institution*

Question	Oromia		Eshet	
	Yes	No	Yes	No
Did you get credit access before you join this micro finance institution?	0%	100%	0%	100%

Source: own survey

The above table indicates that Because of the above reason 100% of the clients of both micro finances do not have any access to credit service. So both micro finances are said to have a good performance in giving the awareness about the significance of micro finance institution in the improvement of wealth of the clients and economic development of the country.

*p) The Desire of the Respondents*

Most of the respondents initiated by desire or willing to earn profit from the money that take from the micro finance rather than to survive with it. The table below indicates that what initiates the clients to be the member of the micro finance institution.

*Table 15 : willing of the clients to be the member of the micro finance*

Question	Oromia		Eshet	
	Willing to earn profit	For survival	Willing to earn the profit	For survival
What initiates you to be a member of this micro finance institution?	90%	10%	90%	10%

The above table indicates that 90% of the clients of both micro finance institutions are initiated by profit of the micro finance while only 10% of the clients of both microfinance institutions are willing to survive with a birr. This indicates that most of the clients are profit oriented and the use their birr in a manageable way.

In figure, 1 indicated that the number of clients in Eshet micro finance is increasing from time to time except 2006 . 2006 is not completed still so there is dropout and coming in clients until the end of the year this is reason why the numbers of clients are decreased. When we see in terms of percentage Eshet microfinance institution increases its client by 14.3% from 2000-2006 except 2006. So in terms of breadth of the outreach Eshet microfinance of seka town is at good position.

In Oromia saving and credit institution the number of clients served over a given period of time are sometimes increases and other time decreases. This variation is due to the following factors:

- ✚ Seka worda is the main producer of cash crops; when the income they get from cash crops is increases the number of clients are decreases and vice versa.
- ✚ Most of the time clients of Oromia saving and credit association S.C increases during the winter time because people want credit at that time to buy fertilizer and to fattening the livestock.

**IV. DISCUSSION**

*a) Performance of microfinance institution*

Assessing the number of clients being served by a MFIs has been noted in literatures as core performance indicator for a given MFIs. Outreach is one of the methods of measuring the performance of microfinance institution over a given period of time. If the number of clients that are served in certain microfinance institution are increased over a given period of time, then that microfinance is said to have a good performance and vice versa. Outreach can be measured in two ways i.e. in terms of its breadth and in terms of its depth.

- ✚ Again the clients of this company increases during the summer season because the clients want credit at that time to sustain themselves
- ✚ One of the disadvantaged from economic empowerments point of view are women. The study found that credit access to women is still limited. Even if there is no affirmative action in Eshet micro finance institution, the number of women clients and their outstanding is increasing from time to time. Thus this microfinance institution is at a good position in the depth of outreach.
- ✚ Oromia credit and saving association does not have affirmative action. Even if there is no affirmative action in this micro finance institution the number of women clients and their outstanding is increasing from time to time. When we compare this micro finance institution with Eshet micro finance institution it serves large amount of women clients and its outstanding is also very large. The number of women clients in Oromia saving and credit association increases more than that of Eshet microfinance in the period from 2000-2006 this indicates that Oromia saving and credit association have more performance than that of Eshet micro finance institution in serving women clients.

Provision of different kind of product by MFIs is also one form of performance indicator. The study find that though both MFIs in the woreda focus on loan provision and saving product, Oromia saving and credit association share company also provide micro insurance as social service , leasing, pension, and consultancy services for the woredas community. The study also found that the MFIs provide credit to all kind of business on both individual and group loans basis. Especially Oromia give attention to different sector services and micro and small enterprise. For instance Oromia credit and saving association S.C is giving its service for the following sectors.

- ✚ Service sector
- ✚ Trade sector
- ✚ Construction sector (the sector in which the government pay a great attention)
- ✚ Agriculture sector and
- ✚ The manufacturing sector (this is also the sector in which the government pay attention).

#### b) *Duration of the loan*

Looking at the credit term of MFIs, it was found that they are totally concentrated on short-term loan ranging from 12 months to 24 months. This definitely would have a negative impact on the selection of investment projects by the clients. The clients will tend to only participate on trade related activities and short term production activities rather than long term investment which will have high returns in the long run.

#### c) *Interest rate*

The study also found that most MFIs charge different interest rate ranging from 10% to 24%, but some charge flat interest rate. To the majority (who charge varied interest rate), the rationales for the variations of the interest rate are:

- ✚ Variations in human power and material cost involved in processing and follow up of the credit facility;
- ✚ Variations in risk involved in the type of the business; and
- ✚ Vulnerability to draught or extreme poverty.

The study finds an increase in trend of the interest rate, even when the outstanding lending of the institutions is escalating, which implies that probably the beneficiaries are price insensitive in association with their desperate demand for the credit. This may in turn imply exploitation of the profit of the poor client given their disparate need for the money. Let us look the interest rate of the two micro finance institution in different sector.

#### d) *Challenges of microfinance institution in seka woreda*

The study also found the presence several challenges that constrain the MFIs operation not to be efficient. Some of the challenges according to the representative sample MFIs are:

- ✚ Less saving habits;
- ✚ Lack of choosing profitable enterprise;
- ✚ Sometimes the clients don't get they want to take; lack of satisfying the financial needs of the customer;
- ✚ Reluctant service rendering; lack of punctuality ;
- ✚ Increasing of interest rate from time to time;
- ✚ Easy dissemination of bad mouthing (some clients are not visionary; they opt for immediate benefits in illegal way);
- ✚ lack of trust between the member of the groups in the repayment of the loan;
- ✚ The legal environment is not conducive enough in enforcing the loan contract;
- ✚ Shortage of experienced human resources; and Shortage of Logistics in rural areas such as road, telephone, etc.
- ✚ Lack of recording data in manageable way

Lack of adequate information about the client's financial management and absence of recorded evidence is the main challenge. This makes the MFIs to rely on fellow group member's oral information. Additionally, problem of certifying the real ownership of business, problem of clients to target on profitable business, and sometimes lack of understanding of clients about the operation of the institutions, are the challenges.

## V. CONCLUSION

The paper examines the performance of MFIs in relation to outreach and financial sustainability. It reviews literatures on core performance indicators of MFIs. The literatures noted that MFIs could be examined through three main polar: outreach to the poor, financial sustainability and welfare impact. The study also include some related performance indicator of micro finance institution

From the angle of the outreach both micro finance institution shows the considerable change in the period of study from 2000-2006. This means the increment is not only in its breath but there is also increment in the depth of the outreach. The number of economically disadvantaged groups for instance low income group and women groups are increasing in the period of study from 2000-2006. This implies in that the outreach to the clients of the two microfinance institution found in seka town is said to have good performance.

From financial sustainability angle, the study does not get enough information to assess the financial sustainability indicator of the micro finance institution. However the study found some indicator of the financial sustainability of microfinance. In terms the current ratio and capacity ration oromia credit and saving association S.C said to have good performance this year (2006). But in case of total deposit ratio and cash position indicator this company is not in the favorable condition. Eshet micro finance does not have any recorded information on the financial sustainability indicator of micro finance. In case of increasing the loan size to the new customer, increasing the outstanding to the customer, and satisfying the financial needs of the customer both micro finance shows the considerable change in the period of study from 2000-2006.

From the angle of the welfare impact 50% and 86.7% of the Eshet micro finance and OCSA.S.C respectively are willing to continue as the member of micro finance. Even the reason of the default of the clients are different the oromia credit and saving association S.C is at a good position than that of Eshet micro finance. Only 13% of the clients' do not want to continue as the member of oromia but half the clients of Eshet micro finance do not want to continue as the member of the micro finance.

As the related indicator of microfinance, both companies are at the better position in increasing the social benefits of the clients. They improve the saving habits and the living standards of the clients. They take the interest rate that balances the profitability of the micro finance and social benefits (especially oromia credit and saving association S.C. They provide their service to every individual and the provide loan, credit service to the clients. But oromia provide the insurance, leasing, pension, and consultancy services for the woredas community. In the future both micro finances

aimed to increase their clients and the benefits of the clients through increasing their loan size, decreasing the interest rate and encouraging the saving habits of the clients.

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