DEBREBIRHAN UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTEMENT OF MANAGEMENT

ASSESSMENT OF FACTORS AFFECTING THE PROFITABILITY OF AMHARA CREDIT AND SAVING INSTITUSION

(IN CASE OF MOLALE TOWN)

MBA THESIS

By

KETEMA MAMO WOLDEMARIAM

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ADVISOR: BIRHANU. M (PHD)

ARESEARCH SUBMITED TO THE DEPARTMENT OF MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR DEGREE OF MASTER OF BUSINESS ADMINSTRATION (MBA)

JULY, 2021

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MOLALE ETHIOPIA

DECLARATION

I, the undersigned, declare that the thesis is my original work, and has not been presented for a degree in other university and that all sources of materials used for the thesis have been duly acknowledged.

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Examiners' Thesis Approval Page

Approved by: We the examiners board approve that this thesis has passed through the defence and review process

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Principal Advisor	Signature	Date

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Abstract

Every business organization faces a problem which hinders its objective for which it is established. So, like any business organization Amara saving and credit institution faces many problems which affect its profitability. The main purpose of this study was to assess factors affecting profitability of Amara saving and credit institution in Molale Town.The researcher use both primary and secondary source to gather data. The primary sources of data are related to the questionnaires distributed to both customers and employees of Amara saving and credit institution in Molale Town and they are the main sources of the study. The researcher used judgmental random sampling method to take thirty active customers and forty employees of Amara saving and credit institution in Molale Town. The processed data was analyzed using descriptive statistics both data analysis methods. (I.e. quantitative and qualitative data analysis method) use in the study the data collected through questionnairewas analyzed using different descriptive analysis like percentage, pie-chart andtables. Therefore, Legislative and regulatory framework is not an essential influential key factor for achieving the performance of MFI. In addition, Economical factor directly influence performance of microfinance institution.

Acronyms

- ✓ **ACSI –** Amhara Credit and Saving Institution
- ✓ MFIs - Micro finance Institutions
- ✓ FeMESD - Federal Micro and Small Enterprise Development Agency
- ✓ CBE - commercial bank of Ethiopia
- ✓ GDP - Gross Domestic Product
- ✓ ROA - Return on Assets
- ✓ FSS Financial Self-Sufficiency
- ✓ OSS - Operational Self- Sufficiency
- ✓ ROE - Return on Equity

CHAPTER ONE

1. INTRODUCTION

1.1. Back Ground of the Study

The formal financial institutions have little role in financing development efforts in the rural area because they are clustered in urban conglomerations, concentrate on finding large in accessible to the rural poor especially in terms of distance. In addition to this the rural poor cannot fulfill banking requirements to obtain bank loans/ credits. Besides, banking requirements for collateral guarantee and intrinsic banking procedure which in most cases is very difficult for the poor to deal with volume of loan demanded by farmers/ poor require small loan size that is known as micro-loan or micro-credit and micro-finance services. Thus, possessing a small or micro-loan is not financially feasible and it is difficult to manage. So, as a result the formal financial institution such as banks is reluctant to finance the demand of small farmers or lend small loans .On the other hand, credit from informal sources is inadequate and moreover, the interest charged on such loan is excessively exploitive or costly nature of informal financial source of finance led to the establishment of specialized financial institution (Yirsaw, 2008).Microfinance is highly considered as one of the most effective tools to improve the life of the poor especially in developing countries.

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. Micro finance Institutions (MFIs) provides 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 Amara (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.

Amara credit and saving is a microfinance institution that strives to strengthen the economic base of low-in-come earning people in both urban and rural parts. Micro-finance institutions (MFIs) are those institutions which provide micro credit, saving and other services for those who are productive borrowers. The formal and informal sectors are the principal sources of finance for any investment or business that can be under taken at micro, small-scale and large-scale level in an economy. The major financial institutions in the formal financial sector in Ethiopia are commercial bank of Ethiopia (CBE) and development bank of Ethiopia (DBE).

Profitability is the ability to generate profit from sale, whether the sale is tangible (e.g. -goods) or intangible (e.g.-paid for knowledge), whether a service or a product. Profitability is a potential of a venture to be financially successful. This may be assessed before entering in to a business or it may be used to analyze a venture that is currently operating. Although it may be found that one set factory is not likely to be successful or has not been successful. It may not be necessary to abandon the venture. It may instead be feasible to change operational factor such as pricing or costs, there are 3 basic situations that can describe a business financial situations. It can be profitable, it can be breakeven, or it can operate at loss. In most case an organization goals is to make profit. Without profitability the business will not service in the long run so measuring current and past profitability and projecting future profitability is very important. It is measured with income (money generate from the activity of a business) and expenses (cost of resource used up by the activity of a business (http://avami journals). Profitability of a firm is affected by different factors such as degree of competitive , strength of demand, state of economy, substitutes of product or service, the degree of cost(variable), a firm with high fixed cost, if the firm can price discriminate, amount of sales, determination of pricing, and excess of expenses over revenue/income.

Factors affecting the profitability of Amara credit and saving institution in Molale Town has advantage for the development of organization by identifying what factor are affecting the growth of profitability, the level of service quality, investment development expenditure and what are initiated in the organization. The study will hope to indicate the low of market through, in depth investigation and identification of factor which affects profitability credit and saving institution. In this study the main focusing area that the study will be concerned about is identification of factor which affects profitability of credit and saving institution in case of Molale Town which have an effect on the Amara credit and saving institution operation and profitability.

1.2. Statement of the Problem

The primary objective of MFIs is to provide service to the poor in order to mitigate the financial constraints and help to alleviate poverty. Each MFI tries to maximize its repayment performance, saving more able poor client, and tires to retain them for a long period of time.

Even though, micro finance is said to be an effective tools to mitigate several social and economic problems of poor mass, still there is a huge gap to bridge between the targeted objectives and reality. There is a need to study how micro finance are functioning in Molale Town towards eradication of poverty and evaluating their performance. And it is also believed that these findings will be helpful to policy makers for better decision (Ramanaiah & Gowri, 2007). Some of the indicators of effective MFIs are the loan performance of the borrowers, client retention performance, and outreach performance (Goodquin, 2004). High repayment rate gives benefits both to the MFI and borrowers. If there is high repayment rate the relationship between the MFI and the clients will be healthy. High rate helps to obtain the next higher amount of loan and other financial services. In contrast, if there is low repayment rate, both the borrowers and the MFI will be affected. IN this case the borrowers will not be able to obtain the next higher loans and the lenders will also lose their clients.

According to Desselgn Mulugata (2012) concluded that the basic determinant factors which affect the profitability of MFI include, low member satisfaction and member handling, lack of members saving habit ,management habit in providing MFI service and luck of well trained and skilled employees. But some areas of determinant factors of profitability such as, lack of proper asset utilization and capitalization by MFI , lack of credit worthiness of members and lack of awareness of customer ' about borrowing system are uncovered areas of the study.

Reta (2000) has explained loan repayment performance of group borrowers in Addis Ababa. His findings was frequency of loan supervision, suitability of repayment period and other income sources are found to encourage repayment hence reduce the probability of loan default. Abraham (2002) carried a study on the loan repayment and its determinants in microfinance enterprises in Zeway. His findings were education and work experiences are enhancing loan repayment. While extended loan repayment period influences the repayment performance negatively.

According to Godquin (2004), age, loan size, and duration showed a significant negative impact on the repayment rate. Onyeagocha and Chidebelu (2012) carried a study on determinants of loan repayment performance in south east state of Nigeria. They hypothesized that loan size to have a negative relationship with repayment rate.

Fikrte (2011) conducted a study on the determinants of loan repayment performance in Addis Credit and Saving Institution (ACSSI). She found that age has significant positive effect on loan repayment. Millon, Nyikal, and Wania (2012), conducted a study on the factors affecting loan repayment performance. They found that education is an important determinant of loan repayment. From the above empirical studies on loan repayment performance of MFIs, the researcher observed that most of the studies were conducted by considering: individuals (borrowers) characteristic (age, gender, education level and family size), business related characteristic (sales, business experience, management skill) and loan characteristics (loan amount, interest rate, repayment amount). Regarding credit repayment performance of the borrowers no empirical studies have been made in Amara Saving and credit institution in Molale Town. Therefore to fill the gap this study was conducted to identify the factors affecting the profitability performance in Amara saving and credit institution in Molale Town.

Repayment problem is one of the critical issues of MFIs that concerns all stakeholders where the high loan default rate is the primary cause of the failure of MFIs (Yaron, 1994; Woolcock, 1999; Mar, 2002; Maata, 2004), as cited in Norhaziah (2010). Many empirical studies revealed that individual/ borrower's characteristics, lenders characteristics, and loan characteristics are the major factors affecting profitability performance of the borrowers. The agency problem, adverse selection and moral hazard that appear as a result of information asymmetries are also the main reason for loan default. This is because the lenders cannot observe the behaviors of their clients either they are honest and dishonest. The lenders can only observe the outcome of their loans either the clients repay or not. Therefore, to mitigate the repayments problems, a close relationship between lender and borrower can be applied through monitoring. So this paper tries to identify and investigate on issues which are still uncovered factor affecting profitability of credit and saving institution in Molale Town. In views of the above problems, the central questions that are raised and addressed by this study are the following.

1.3. Basic Research Questions

1. Does institutional factor affect the profitability of ACSI in Molale Town?
2. Does economical factor affect the profitability of ACSI in Molale Town?
3. Does capital structure affect the profitability ACSI in Molale town?
4. Does regulatory and legislative framework factors affect the profitability of ACSI in Molale?

1.4. Objective of the Study

1.4.1General objective of the study

The genera objective of the study is to identify the factors that affect the profitability Amara credit and saving institution in Molale Town and to come up with possible solution for these factors.

1.4.2. Specific objective of the study

In light of the above general objective of the study, the following specific objectives are formulated. Thus are:

1. To examine the extent to the Institutions affect the performance of microfinance institutions in Molale Town.
2. To identify the impact of capital structure on profitability of Amara credit and saving institution Molale Town.
3. To examine the extent to Economic factors affect the performance of microfinance institutions in Molale Town.
4. To analyze the extent to which Regulatory and legislative framework affect the performance of microfinance institutions in Molale Town.

Hypotheses and determinants selection

H_1. There is a significant positive relationship between Capital Structure factors and profitability of Amara saving and credit institution MolaleTown.

H_2. There is a significant positive/ negative relationship between **Legislative factors and regulatory frame work** and is profitability Molale Town.

H_3. There is a significant positive relation between economic factor and profitability of ACSIs Molale Town.

H_4. There is a significant positive/ negative relationship between institutional factor and ACSIs profitability Molale Town.

For the purpose of this study, return on assets (ROA) was used as proxy of MFI Profitability. The Microfinance Financial Reporting Standards recommends the use of ROA and ROE as measures of profitability rather than financial self-sufficiency (FSS) and operational self-sufficiency (OSS) (Muriu 2011). ROA may be biased due to off balance-sheet items; It can however be argued that such activities may be negligible in MFIs. It is known that most of the studies undertaken in similar industries like banking and insurance employ ROA as a measure of profitability. Even though much is not done in case of MFIs, Muriu (2011) and Jorgensen (2012) used the same approach for microfinance. Therefore, this study will measure profitability using ROA similar to the aforementioned researches. According to AEMFI, ROA is measured as adjusted net operating income, net of tax, divided by adjusted average total assets. The following are factors that affecting the profitability of MFIs financing structure, efficiency, risk and liquidity, size and learning effect (Age).and macroeconomic variables Capital structure: the study used this variable to measure how much of the MFIs assets are funded with owner's fund (inverse to leverage ratio).

The ratio selected to measure the capital structure of MFIs is capital to asset ratio measured as adjusted total equity divided by adjusted total assets (AEMF 2007). The risk return trade off assumes high leverage (more debt financing) do have higher return whereas signaling and bankruptcy hypothesis says high equity ratio leads to high profitability due to signaling effect and lower financial distress. Operating efficiency: Efficiency in expense management should ensure a more effective use of MFIs loan able resources, which may enhance profitability.Higher ratios of operating expenses to gross loan portfolio imply a less efficient management.

Size: This variable is included to capture the economies or diseconomies of scale. There is consensus in academic literature that economies of scale and synergies arise up to a certain level of size. Beyond that level, financial organizations become too complex to manage and diseconomies of scale arise. The effect of size could therefore be nonlinear (Amdemikael 2012). Natural logarithm of total asset of MFIs is used as a proxy of size. The study will suggest that since the dependent variable in the model (ROA) can be deflated by total assets it would be appropriate to log total assets before including it in the model. Since the expected sign of the effect of size on profitability is unpredictable.

Age: Age is another variable that influences profitability. There has been an enormous progress in the existence of MFIs and client outreach. As more and more MFIs start up, it is also interesting to investigate whether only the mature MFIs have found their way to profitability, or whether the new MFIs entering the industry has different set of goals and operational set of skills leading to profitability, (Jorgensen 2012). Therefore, the expected sign of age is unpredictable. Age is denoted by the number of years MFI has been in operation in order to capture learning effect in MFI performance.

1.5. Scope of the Study

The scope of the study of the study was to identify factors affecting the profitability of Amara credit and saving institution in case of Molale Town. The scope of the study area was limited to only one branch of Amara saving and credit institution due to time finance and other resource constraints. However according to the availability of audited financial statement data and make the study the performance of Amara saving and credit institution currently operating in year of 2015-2019 fiscal periods’ secondary data.

1.6. Significant of the Study

This study is intended to generate information that will help microfinance institutions and other concerned bodies to look for more effective solution for credit repayment problem. The suggestion of the study will also help the concerned body at least to minimize the credit default problem that exists in micro finance. Finally, the study will have valuable importance for further study and add new idea to the existing knowledge of microfinance about credit repayment performance and credit default.

1.7. Definition of Key Terms

Profit: the excess of total revenue over total expenditure in transaction or series transaction especially the excess of the selling price to good over their cost. It is the positive gain from investment a business operation offer substituting for expenses of loss. It is the ratio for of profit for a given year to the amount of capital invested to value sales, Maerriam-webster.com/dictionary profit.

1.8. Organization of the paper

This study has been organized into five chapters. The first chapter deals with the introduction of the study which also consists background of the organization, statement of the problem, objective of the study and etc. the second and the third chapter on review of related literature and data analysis and interpretation respectively. The last chapter (five) concern with the summery, conclusion and recommendation.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 INTRODUCTION

For a complete understanding of the theory and practice behind the study, other related studies were reviewed. This chapter presents a structured review of the related literature. It examines both theoretical literature, empirical literature and the variable commonly used in the study of factors affecting the profitability of microfinance

2.2 Theoretical Literature

2.2.1 Micro finance

The financial intermediation includes the provision of saving, credit and insurance services, while social intermediation involves organizing citizens, groups to voice their aspirations and raise concerns for consideration by policy makers and develops their self-confidence (Robinson, 2002). Microfinance is defined as the provision of financial services to low-income clients, including consumers and the self-employed, which traditionally lack access to banking and related services (Gonzalez-Vega, 2008, cited in Yilkal, 2015). Moreover, Marguerite (2001) stated that microfinance refers to small-scale financial service primarily credit and savings enterprises where goods are produced, recycled, repaired; who promote services; who gain income from renting small amounts of land, draft animals, or machinery and tools to other individuals and groups at the local level of developing countries, both rural and urban.

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers. It can be a critical element of an effective poverty reduction strategy. Improved access and efficient provision of saving credit and insurance facilities in particular can enable the poor to smooth their consumption, manage their risks better, build their assets gradually, develop their microenterprise, and enhance their income earning capacity. Thus microfinance helps to promote economic growth and development.

Therefore based on all definitions given, it can be concluded as microfinance encompasses broad financial services given to the poor and low-income group for many reasons including income generating activities. It is a place for the poor and near poor clients to get access to a high quality financial service, which includes not just credit but also savings, insurance and fund transfer. According to Ledgerwood (1999), microfinance is a provision of a broad range of financial services such as savings, credit, and payment services to the poor or low-income group who are excluded from the normal banking sectors.

2.2.2 Characteristics of Microfinance

Microfinance gives access of financial services to low- income people, who wish to access money for starting or raising an income generation activity. The individual loans and savings of the poor clients are small. Microfinance come into being from the appreciation that micro-entrepreneur and some poorer clients cannot have access to borrow from banks, that is, they can repay both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs. Microfinance as an institution has created financial products that together have enabled low-income people to become clients of a banking intermediary.

The characteristics of microfinance products include (Murray and Boros, 2002, pp.10-11).

- Small amount of loans and saving.
- Short-period loans (up to one year term).
- Payment schedules attribute frequent installments or frequent deposits.
- Payments (installment) made up from both principal and interest.
- Higher interest rates on credit (higher than commercial bank rates).
- Easy access to the microfinance intermediary saves the time and money of the client and permits the intermediary to have a better idea about the clients' financial and social status.
- Simple application procedures
- Short processing periods (between the completion of the application and the disbursement of the loan).
- The clients who pay on time become eligible for repeat loans with higher amounts.
- No collateral is required contrary to formal banking practices. Instead of collateral, microfinance intermediaries use alternative methods, like, the assessments of clients' repayment potential by running cash flow analyses, which is based on the stream of cash flows, generated by the activities for which loans are taken.

2.3. Definition of Profit

A profit is the positive gain from investment a business operation offer substituting for expenses opposite of loss. www.investwordcom (3880/profit Audio English net dictionary. Profit is the excess of returns over expenditure in transaction or series transaction especially the excess of the selling price to good over their cost. It is the ratio of profit for a given year to the amount of capital invested to value sales. This compensation accruing to entrepreneurs for the assumption of risk in business enterprise as distinguished from wage or rent http://www. Maerriam-webster.com /dictionary profit/

2.4. Microfinance institution Profitability

Like all business MFIs get profit by earning more money than what they pay in expense is the interest paid on its liabilities. The major assets of MFIs one its loans to individual, businesses and other organization and the securities that holds while its major liabilities are its deposit and the money that it borrow either from other MFl or selling commercial paper in the money market.

2.5. Profit Measures

The tradition measures of the profitability of any business are return on assets (ROA) and return on equity (ROE).

Assets are used by businesses to generate income member fee and shares are Microfinance assets and one used to provide most of MFI income. However to make loans and to buy securities a microfinance instructions must have money which comes privately from the microfinance institution owners in the form of MFI capital from shares, and form money that it borrows from other banks or by selling shares. A microfinance instructions buys assets primary with funds obtained from its liabilities as can be seen from the classic accounting equation. **Assets= liabilities + MFI capital (members, equity).**

However, not all assets can be used to earn income because microfinance instructions must have cash to satisfy cash withdrawal request of customers. This vault cash is held its vaults in other play on its premises such as tellers, drawers and this earns no inters. A microfinance instruction must keep a separate a Loan leans loss reserves to cover possible loss when borrowers are unable to pay back their loans. The money held in a loan loss reserve account cannot be counted as revenue and thus does not contribute to profit source: http/www.federal reserve /2008/ articles/ bank profit/defanlhtm.

2.6. Determinant of Profitability

The determinants of Microfinance institution profitability can be divided in to two main categories namely internal factor and external factors.

2.6.1. Internal determinants

Internal determinants of microfinance institution performance can be defined as factors that are influenced by a microfinance instructions management decisions. Such management effects will definitely affect the operating results of microfinance instructions. Although a quality management leads to a good MFI performance it is difficult if not impossible to assess management quality directly. In fact it is implicitly assumed that such a quality will be reflected in the operating performance. As such it is not uncommon examine a microfinance institution performance interim of those financial variables found in those financial statements those statement the balance sheet and income statement are the two principle ones.

- **Balance sheet**
- **Income Statement**

While the balance sheet concentrates on microfinance institution financial position the income statement measure the success of its operation for a given period of time ratio obtained from the income statement are also known as operation ratio because they structure the management efficiencies in generating revenue and at the same time countering cost.

One of the most important internal favors that can be constructed from the income statement is the efficiency in expenses management. As conventional wisdom suggests the higher the expense of a MFI the lesser the microfinance institution of it ability will be, Boure (1989) & siangetal (2003).

2.6.2. External Determinants

External determinants or microfinance institution profitability are factor that are beyond the control of MFI management. They represent events outside the influence of microfinance institution. However, the management can anticipate changes in the eternal environment and try to position the institution to take advantage of the external determinates are macroeconomic factors & financial structure variable, source Anna P.I Vong.

2.7. Factors Affecting Profitability

Profitability is affected by changes in sale price cost capitalization professionalism operations & assed utilization.

- **Capitalization:** refers to the contributed and available capital for the business to meet future obligations expand the business or improve existing assets.
- **Professionalism:** treating the vinery as a professional business and something done for function is very import and for the success of that business.
- **Operation:** factor affecting vinery profitability and viability include facility maintenance supply chain management varietal focuses and asset utilization.
- **Asset utilization:** liven industries significant investment in asset it is important to make the most out of the assets a winner's owner through asset utilization.

2.8. Liability of Microfinance Institution

The liabilities of microfinance institution are claims omit. These are the items which from the item which from the source of its fund of the liabilities the share capital of the microfinance institution is the first item which is contributed by this shareholder and is a liability to them.

The second item is the research fund. It consists of cumulated resources which are meant to meet contingencies such as losses in any year. The microfinance institution is required to keep certain percentage of its annual profit in the reserve fund. The reserve fund is also a liability to shareholders. The third item comprises both the time and demand deposits. Deposits are the debits of the microfinance institution to its customer. They are the main sources from which the microfinance institution fund for investment and are in of its income. By keeping a certain percentage of its time and demand deposits in cash the MFI lends the remained amount on interest. A borrowing from other microfinance institution or bank is the fourth item. The microfinance institution usually borrows secured and unsecured loans from microfinance institution union. Secured loans are on the basis of some recognized securities and unsecured loans out of its reserve funds lying with the microfinance instructions union.

The sixth item relates to bills for collection. These are the bills of exchange which the microfinance institution collects on behalf of its customer and credits the amount to their accounts. Hence it is a liability to the microfinance institution on behalf of its microfinance institution. These are the claims on the microfinance institution which it has to meet when the bills mature the eight item contingent liabilities relates to those claims on the microfinance institution which are unforeseen such as outstanding for ward exchange contracts claims on acknowledged debts etc. in the last time, profit and loss are shown profits payable to the shareholders which are a liability on the microfinance institution, *Source M.L JHINGAN.*

2.9. Empirical Reviews

The review entails studies that have been conducted in relation to organizational structure on the performance of MFI, effect of educated and skilled staff on the performance of MFI, effect of age and gender on the performance of MFI , saving ,borrowing repayment habit on the performance of MFI, effect of financial coverage and available to the performance of MFI, effect of macroeconomics stability of the country and donors on the performance of MFI effects of Government legislative and regulatory on the performance of MFI.

2.9.1. Institutional Factors

Abebaw (2014) Aziza (2013) studied the contribution of Microfinance based on income, living condition, asset accumulation, saving, decision making power, self-esteem, self-confidence, business management skills along with the strength and weakness of the institution among others. As per literature reviews, most of the empirical studies have been conducted through the objective of measuring financial performance MFI by using internal and external factors that affect the profitability of the institution.

2.9. 2. Financial service and control system

Ratemo (2011) suggests that there is need for a general consensus that if they were to grow enough to reach a long-term basis, the millions of low income people without access to financial services needed more sustainable sources of financing to support their development. He also recommends that there was still a role for donors in the further development of the microfinance industry in Kenya to address a number of constraints including lack of capital for on-lending and institutional capacity of the MFIs. On the other hand, Mbithi (2012) argues that the dependence on donor funds by the local MFIs affected their capacity to advance loans to potential customers.

***2.9.3*. Effect *of saving* borrowing and repayment habit**

There is enormous amount of uncertainty with regard to the repayment capacity of the poor. Information regard to credit is inadequate or unavailable, expenditure and income patterns of the poor are irregular, and the majority of the poor do not have collateral. In addition to these, high probability of exposure to systematic risks including crop failure or commodity price fluctuation is fairly high, thus lending to the poor is a high risk investment with high probabilities of default (Maren, 2010). Microfinance institutions increase opportunities for poor section of every society by helping them to access credit and introducing the habit of saving. The major reasons formal financial institutions financially exclude the poor is associated with high risks and high costs.

2.9.4. Effect of financial coverage and availability of service.

The effect of size on depth of outreach is mixed with Hudon and Traca (2006) found negative relationship implying larger MFIs are pro-poor whereas Cull et al (2007) found positive relationship. Microfinance institutions plays an indispensable role in the developing countries by providing financial services (credit, saving mobilization and insurance services) to the poor people with very small business project (Marzys 2006). Size: size is positively related to sustainability and this may be due to financial services delivered to larger group of clients or larger loan size (Bogan, 2008; Mersland & Storm, 2007; Cull et al, 2008). Size is positively related to breadth of outreach as the number of borrowers can itself be another measure of size (Bogan, 2008).

CHAPTER THREE

2. RESEARCH METHODOLOGY

The researcher utilizes different research method and material to analysis and assess the main factor that affect the profitability of the organization; Amara credit and saving institution in Molale Town. In this study the researcher used quantitative methods. Quantitative research is based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity (Kothari, 2004).

Quantitative research is a means for testing objective theories by examining the relationship among variables, (Creswell, 2003). Quantitative research is often regard as being purely scientific, justifiable, and precise and based on facts often reflects in exact figures. This approach often appears when the audience consists of individuals or readers with a quantitative orientation.

3.1. Research Design

In this study the researcher used quantitative method. Quantitative research is based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity, (Kothari, 2004). Quantitative research is a means for testing objective theories by examining the relationship among variables, (Creswell, 2003). Quantitative research is often regarded as being purely scientific, justifiable, and precise and based on facts often reflected in exact figures. This approach often appears when the audience consists of individual or readers with a quantitative orientation.

3.2. Target population, sampling technique and sample size

The target population of this study was all the customers of Amhaara saving and credit institution in Molale Town. Currently in Molale Town the enterprise has 3210 customers out of which 256 borrowers were randomly selected for this study. Out of the total population only 147 clients were residing in rural area, therefore the researcher considered as all the borrowers were living in urban area. The researcher also interviewed the employees of the institution (the institution has 9 permanent workers) during the study period. The study made use of simple random sampling because it is considered the simplest, most convenient and bias free selection method. It enables every member of the population to have an equal and independent chance of being selected as respondents. The sample size was determined based on the following simplified formula (Yamane, 1967). This formula was selected because it was easy to calculate and used to determine the sample size of large population.

$$\boldsymbol{n = \frac{N}{1+N(e)2}} \text{ .... } \mathbf{1}$$

Where;

n= is the size of sample from population

N = represent total population size

E= the marginal error. So, the total sample size employed in this study was as follows:

$$n = \frac{3210}{1+3210(0.06)2} = \quad 256$$

3.3. Source and type of data

Both primary and secondary source of data are consider and use in the study. Primary source of data will be gathering from officer and customers of microfinance institution, Molale Town by questionnaires. In order to get primary data both closed ended and open ended questionnaires are uses. Secondary source of data are obtain from different second hand books such as annual report of microfinance institution, microfinance institution document and review of literature on the subject which is published and unpublished materials.

3.4. Method of Data Collection

To achieve the objective of the study, the researcher used both primary and secondary source of data, and it cross sectional. Primary source of data was gathered from officer and customers of Amara saving and credit institution in Molale Town by questionnaires. In order to get primary data both closed ended and open ended questionnaires are used. It covers the personal information, institutional, group lending, loan and repayment related questions.

The questionnaires were prepared in English language and translate in to Amharic, the language Spoken by the majority of population in the study area. The questionnaires were distributed to the respondents when they came to the institution for their own reason .In addition, qualitative data were collected through semi-structured interview and discussion with loan officers and branch managers. Secondary source of data are obtained from different second hand books such as annual report of Amara saving and credit institution, MFI document and review of literature on the subject which is published and unpublished materials.

3.5. Data reliability and validity

Reliability and validity research are central criterion and important issues in both quantitative and qualitative research. Validity refers to the strength of research conclusions, inferences, or proposition (Tadesse, 2010).

Reliability estimates the constancy of the measurement or simply, the degree to which an instrument measures the same way each time it is used the same conditions with the same subject (Adams et.al. 2007). To insure the validity and reliability of the study, the researcher has provided sufficient information and reliable data. Moreover, as much as possible the researcher tried to get audited financial statements of the selected MFIs from NBE which is legally legitimate.

3.6. Methods of data analysis

This section presents descriptive and Econometric analytical techniques that were used in this study.

3.6.1 Descriptive statistics

A descriptive analysis was employed to analyze socio economic and lenders characteristics that affect loan repayment performance. Under this method of data analysis, descriptive statistics such as mean, standard deviations, frequency, percentages, etc. were used to summarize and describe the socio-economic characteristics of the borrowers. Moreover, t-test and chi-square tests were used to compare the defaulters and non-defaulters in terms of different explanatory variables.

3.6.2. Econometric model

Loan repayment is a dependent variable, while different socio-economic, loan related and lender related factors were considered as independent variables. In this study, therefore, loan repayment was treated as dichotomous dependent variable. To examine the factors affecting the profitability ACSIs, the most widely used and appropriate qualitative response models are the logit and probit models (Verbeek, 2008).

According to Gujarati (1995), the logit model follows the maximum likelihood estimation technique, and assumes that the random variable follows the normal cumulative density function. It means that the likelihood of an event to occur happens when the utility exceeds a certain critical thresh hold level.

Logit and probit models are used for binary response variables. These models have some advantages over the linear probability model: fitted probabilities are between zero and one, and the partial effects diminish (Wooldridge, 2000).Linear Probability Model (LPM) is plagued by several problems such as non normality and hetero cadaster city of the error term, possibility of the dependent variable lying outside the 0-1range most importantly it assumes that the mean value of the dependent variable is linearly related with the explanatory variable, that is the marginal effect of the explanatory variable is remaining constant throughout, which seems patently unrealistic (Gujarati, 1995).This section shows the analysis and interpretation of primary source using qualitative and quantitative methods. The former is used to interpret and analyze the quality of the data gather, while the latter is uses to analyze the quantity data through tables' percentages.

3.8. Ethical Considerations

The researcher study has been adhered to ethical principles with respect of the data collection and use of it in the study. In the first place, all the ideas and concepts taken from other scholars that used for reviewing the acknowledged. In addition the data obtained by recording or written notes will not be passed to third party at any circumstances and only used for the purpose of this study.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This section present the results of questionnaires that the researcher has been collected from the customers and employers, manger and supervisor of Amara saving and credit in Molale Town regarding the assessment of factors affecting the profitability of MFI. Here, the researcher distributed 70 questionnaires to respondents' to gather appropriate data. But, five (5) of them did not return, because of the respondents carelessness to hold the questionnaires in a safe place.

So this chapter present the information gathered through questionnaires to identify and investigate the inherent problems of the microfinance instructions in Molale Town. Furthermore, to present appropriate analysis interpretation and to present the price value of the data of the readers some of the questionnaires item are tabulated and presented by using pie charts, table with detailed necessary interpretation.

Note: this chapter has two parts: the first part concerned with assessing customer attitude and perception towards the microfinance service and their performance. The second part presents the employees and management response toward the required issue or response about factors that affect the microfinance profitability and its performance.

In order to help the research, 30 questionnaires were distributed to the customers of Amara saving and credit institution but unfortunately, 4 of the questionnaires' were not answered and 2 were lost. The analysis below explains findings from the research questionnaires.

4.1. Analysis of Questionnaires for Employees

4.1.1 Sex distribution of employees

Identification of sex of microfinance is important in the financing service activity to identify females and males participation

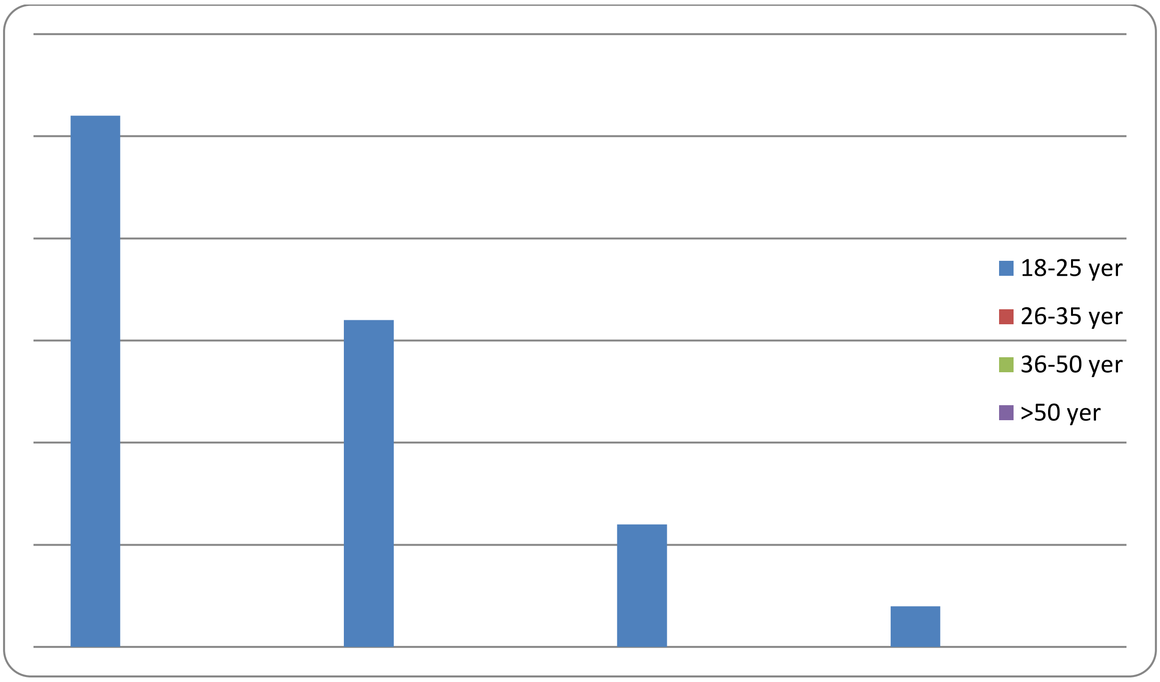
Table 4.1 Sex Distribution of Employees

Respondent /Sex	**No of respondent**	**In percentage**
Male	17	68
Female	8	32
Total	25	100

Source: questionnaires 2020

The above table shows as from the total respondent of 25 employees of the bank 17(68%) of them are male and 8(32%) of the employees are female, from the above result the researcher concluded that male employees of the microfinance accounts a great number having more than twice of female employees. So the researcher reminds the microfinance institution to increase the number of female employees in assumption of increasing female participation as a whole.

4.1. Age distribution of employees



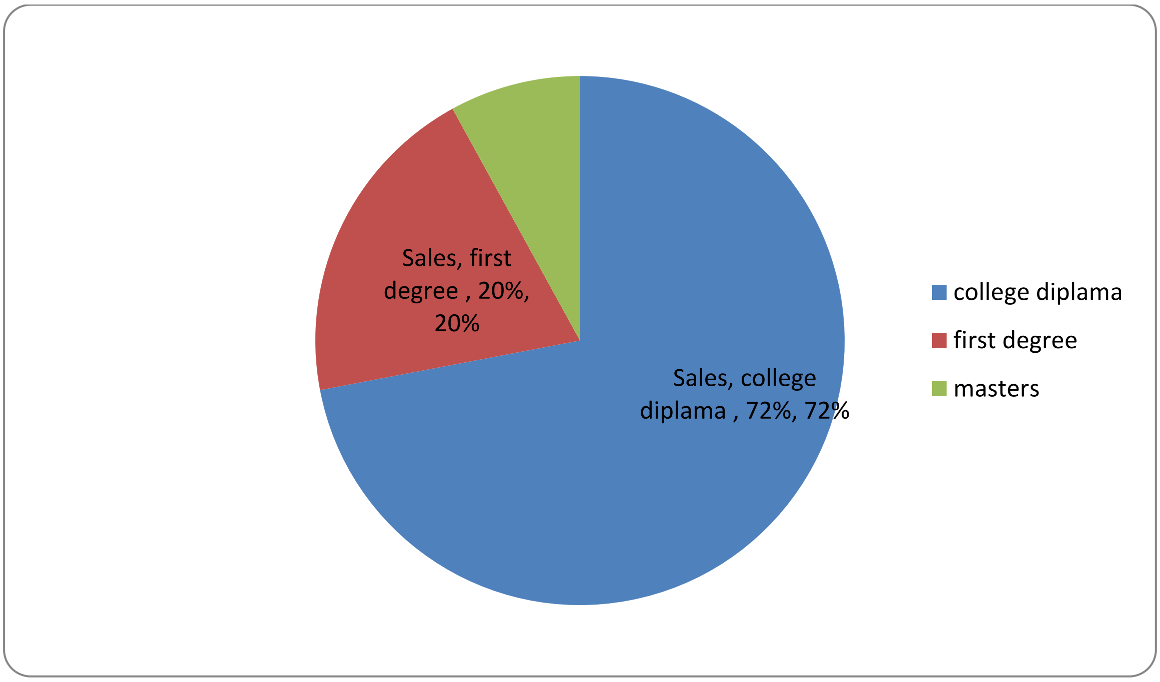
Source: questionnaires 2020

From the above graph one can understand that of most the employees of the microfinance amounting 52% (13 respondents belongs to 18-25 age group. 8(32%) of employees belongs to 26-35 years, 3(12%) of the employees were between 36-50 years and the remaining 1(4%) employee was more than 50 years of age. This data shows majority of the employees of the microfinance are a combination of young and mature, which will give the microfinance both motivation and experience. Supervision and professional training helps give quality service to customers in order to make their branch organization competent enough.

4.2.1. Education status of employees

Identifying the education level of employees is very essential and important for the successful operation of the microfinance as well as for other business organizations to give quality service effectively and efficiently. Education levels of employees in the Amara saving and credit institution in Molale Town saving are shown below by using pie chart.

Pie chart 4.1.education status of employees



Source- questionnaires 2021

The above pie-chart shows that most of employees, 18(72%) of them are BA degree holder and 4 (20%) of them were college diploma holders but the remaining 2 respondents (8%) are graduates with a master's degree. The above result shows that the educational status of the banks employee should be considered very well for competition and up grading that low educational background and training special educations like computer technology and modern banking service training is important for all employee of the bank.

4.2.2. Duration of employees in the microfinance

Knowing how long the employees were working in the bank is important to the researcher so as to help understand how well the employee's contribution to the bank is inters of profitability, customer service and sharing their experience to the new employees. Most of the respondents answered that they have been in the bank for more than 5 years and few answered that they have worked there for most of their life and insuring their trustworthiness by dedicating more than 20 years for the microfinance.

4.2.3. Service rendered by the microfinance audits Profitability

Microfinance are organized to perform a number of functions, primarily for the purpose of caring profit, mostly they attract deposit all kinds current saving accounts and fixed accounts but not only this, microfinance also provide loans and advance for those who are in need of it with others service like money transfer safe custodian with little service charges.

Employees of microfinance were asked what type of microfinance services render by the branch to get profit and the employee's response were as follows. The microfinance currently provides deposit mobilization, money transfer, and money transfer and also provides loans to various business, individual and institutions with particular emphasis to priority sector at the economy to give service and to gate profit. Microfinance earns profit though process of transforming funds and providing service like any other production process of any other firms. The profit performance of any microfinance would be related to many factors including market share or service quality To identify whether the microfinance was profitable or not and to investigate the reason for non-profitability; employees of the microfinance were asked and their response were as follows.

Table 4.2. Profitability of the micro finance

s.no	Item	No of respondent	In percentage %
1	Is the microfinance is profitable?		
	Yes	21	84
	No	4	16
	Total	25	100

Source: questionnaires 2021

Majority of the employee 21(84%) of them think that the microfinance was profitable and 4(16%) of the employees think that the bank is not profitable so; the researcher conclude that even though the microfinance is profitable it was not as much profitable enough as its objectives. In relation to the above question the employees were asked the reason why the microfinance is not profitable, the response of the employees was that because of it was newly opened, because they provide loan for small numbers of customers and high salary payment and people's habit in using microfinance services.

Again with related the above question the researcher asked the employees that what factors affect profitability of the microfinance: the response of the employees was that, existence of high credit interest, existence of large amount of saving account which bears interest for customer (liabilities to the microfinance were the main foots and also emergence of new optical competitors, default loan, risk of import and export accident. From the above analysis the researcher conclude that having excess of deposit and other factor affect profitability.

In addition to above question the employees of microfinance were asked by researcher to investigate /to identify/ which service was demanded by customer, and the response obtain from the employees were as follows.

Table 4.3. Service demanded by customer

S.no	Item	No of respondent	In percentage %
1	Which services are more demanded by your customer?		
	Saving deposit	13	52
	Demand deposit	11	44
	Fived deposit	-	-
	Time deposit	1	4
	Total	25	100

Source: questionnaires 2021

Majority of the employees or 13 (52%) of them said that they use saving deposit, 11 (44%) the employees said that customer need demand deposit and the remaining respondent 1 (4%) said that customers wants time deposit. From these researcher conclude that the customer deposit their money to save from emergency instead of advancing loan.

Table 4.4 Level of competition

s.no	Item	No of respondent	In percentage %
1	Level of Competition?		
	Strong	15	60
	Medium	7	28
	Weak	3	12
	Total	25	100

Source: questionnaires 2021

From the above table the researcher concluded that 15 respondents (60%) think that there is strong competition with other banks, and 28% think that there is a medium amount of competition between SMFI and the other banks. But 3(12%) respondents think that there is weak or no competition at all. There for the researcher can conclude that there are important things that the microfinance should improve to present its self-better than the rest of the microfinance or organizations.

4.2.7. The impact of market competition on profitability and market share of the microfinance.

Private banks which are established in recent year and expanded widely at the current times has several effects on the market share and profitability of the SMFI by providing best service to customers, computerization of financial information in relation to these employees of the microfinance were asked about the effect of market completion on the microfinance profitability and most of the respondents answered that there is not much effect in the market share the institution follows its ways and rules which they think makes the bank better than it's compotators.

4.2.9. Impact of capitalization of asset utilization and professional capitalization asset utilization and professional

All these are refers to contribute and available capital for the business to meet future obligations, expand the business or improve existing assets and it's important to make the most out of the asset winners, owners, owns through asset utilization. With related to the above idea the employee were asked the impact of capitalization asset mutilation and professional and the response of them as follows.

Table 4. 5. Effect of capitalization

S. No	Item	No. of respondent	In percentage %
1	Is capitalization, asset utilization and professionalism affect the profitability the microfinance?		
	Yes	7	70
	No	3	30
	Total	10	100

Source: questionnaires 20201

The researcher understands that 7(70%) of the employees said that it affects profitability of the microfinance and 3(30%) of the employee said it does not affect the profitability of the microfinance. The researcher concludes that capitalization, asset utilization and professional affect the profitability of the microfinance.

In addition of the above question the employees of microfinance are asked how capitalization asked utilization and professionalism affect the profit of microfinance and their response is as increase of capitalization professionalism and increase of asked utilization there is also increase of expenditure. With related to the above question employees are also asked why the profitability of microfinance is not affected by capitalization, asset utilization and professionalism and their; response was the microfinance manager control every activity of the microfinance system and upgrading the capacity of the workers.

4. 2.10. Assessment of factors affecting and profitability of Amhara credit and saving institution (the case of Molale Town)

Table 4.6: Correlations of ROA with other independent variables

(Source: Results from STATA 14 based on the data of MFIs 2016-2020)

S.No	Variables	Partial Correlation	Semi partial correlation	Partial Correlation ^2	Semi partial Correlation. ^2	Significance value
1	Capital structure	-0.1578	- 0.0398	0.0249	0.0016	0.7653
2	Institution factor	0.6234	- 0.1984	0.3886	0.0394	0.1861
3	Economic factor	-0.1544	0.0389	0.0238	0.0015	0.7703
4	Regulatory and legislative factor	0.4797	0.1361	0.2301	0.0185	0.3357
5	Communication factor	0.4599	0.1289	0.2115	0.0166	0.3588

Here, operational performance are measured by Total asset and the profitability of MFI's is measured by Return on Assets (ROA) as dependent variable and. In line with this, number of borrowers per credit officer, outstanding loan per credit officer, loan in arrears, cost per money lent as independent variables. ROA it is the income after tax and interest proportion to total asset, when it is income divided to total asset ratio.

The ROA ratio escalation at any point total asset ratio will equitably decrease. Similarly, there is an indirect or opposite relationship or negatively correlated of the number of borrowers per credit officer and outstanding loan per credit officer with ROA. Moreover, it can be concluded from the above table that ROA, the partial correlation result of ordinary least square (OLS), with total asset shows that the explanatory variable of total asset negatively correlates with dependent variable of ROA. In line with this when there is no non-performing asset then it is called as repayment rate is 100 % which means positive or growing the quality of loan and also no further cost then ROA is positively allied.

Hence there is a relationship between the profitability and operational performance of MFI's based on the significance value. To sum up, the cost per money lend specifies increase in profitability and productivity of the institution because it is positively correlated with dependent variable.

4. 2.11. Analysis of Operational Performance and Profitability of Microfinance Institution in Amhara Region-Ethiopia (the case of Molale Town)

Table 4.7. Repayment rate and Loan Arrears of MFI’s

(Source: Operational Report of MFI’s 2016-2020)

S No	Description	Years of Operation									
		ACSI					VFMFI				
		2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
1	Repayment	100	100	100	100	99.98	96.67	97.69	96.00	95.6	98.33
	Loans in Arrears	-	-	0.05	-	0.034	1.59	1.46	4.19	3.8	2.66

The data clearly revealed that ACSI is better performer than VFMI. In connection to this, as per FGD in VFMFI, the reason for non-repayment of loan on due date is the loan size is smaller than the business plan amount, short period of terms loan, charges higher interest rate, there is no accessibility of different type of loan and did not have enough non-financial service facilities.

4. 2.12. Cost per Money Lend of Selected Micro Finance Institutions

When MFI acquired high cost per one Birr lent, then it displays lower operational performance in turn it will decline the profitability as well as sustainability. From the figure above, ACSI earned low amount of cost per one Birr than VFMI to lend money. Cost per money lent indicates the operational and financial sustainability of the institution.

4.2.13. Hypothesis Testing (sig)

Coefficients[a]						
Model		Unstandardized Coefficients	Standardized Coefficients		**t**	Sig
		B	Std. Error	Beta		
1	**Constant**	2.483	.300		8.279	.000
	institutional factors	.142	.056	.143	2.471	.013
	Cliental factors	.095	.047	.114	2.040	.043
	Economic factors	-.119	-.057	-.118	2.091	.038
	Legislative and regulatory	-.036	.050	-.041	-.729	.377
a. Dependent Variable: performance of MFI						

Source: Sample Survey, 2019

The above table demonstrations the prominent strength most of the independent variables to the dependent variable. The hypotheses of this study are linked with the organizational influence of four variables on the Performance of MFI. The test of these hypotheses guides to reach the object of this study.

Testing H1

From the table displayed, the result showed that there is a significant negative relationship between Economical factor and Performance of MFI with (Beta= -.118) and (p=.038 < 05). The result of this study rejects H3. This mean Economical factor added to Performance of MFI. The study found that Economical factor is directly influence performance of microfinance institution.

Testing H2

In table, the result presents that there is a significant positive relationship between institutional factor and Performance of microfinance institutions with (Beta=.143) and (p=.013<.05). This implies that the institutional factor is most significant determinants subsidizing Performance of MFI. Therefore, the result of the study rejects H1. Clearly, the institutional factor is influencing the Performance of MFI.

Testing H3

From the table displayed, the result indicates that there is a significant positive relationship between Capital structure and Performance of MFI with (Beta=.114) and (p=.043< .05) these results of the study reject H2. It means that a Clientele factor has significant relationship with the Performance of MFI. The study found that Clientele factor is directly influence the Performance of MFI.

Testing H4

As it is indicated in the above table, the result confirms that there is an insignificant relationship between the Legislative and regulatory framework and performance of MFI with (Beta=-.041) and (p=.377>05). This is also clear that legislative and regulatory framework has not been influenced performance of MFI. The results of the study accept H4. The data that Legislative and regulatory framework is not an essential influential key factor for achieving the performance of MFI.

CHAPTER FIVE

5. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY OF FINDINGS

All the data analysis and the detailed discussions made in the receding parts of this study are means to lead the researcher to possible conclusion and recommendation. So that the study of this paper an attempt has been made to find out or investigate the main factors affect profitability of the microfinance. According to the finding the following conclusion has been made based on the overall interpretation and data analysis:

- Low customer satisfaction and customer handling, lack of competitive less, efficiency and time management habit in providing micro financing service for customer due to lack of well trained, skilled and professional employees with compared to private bank.

- Financing structure showed a positive coefficient which is in line with prior expectation with ROA and also the variable was statistically significant indicating that as the Amara saving and credit institution hold high quality asset, even though the source of all of their asset were donation and borrowing their profitability will increased as per this researcher.

- Operating efficiency measured in terms of operating expense to average loan portfolio, revealed a negative coefficient and statistically insignificant result, it is not as it was expected. The result indicates that the Higher the cost, the lower the profitability of Amara saving and credit institution. The coefficient was indicating the real evidence for Amara saving and credit institution which are less efficient in managing their expenses and operating costs.

- Age of MFIs was used to check whether the learning effect can determine profitability of Amara saving and credit institutions. The result showed a positive coefficient and statistical significant; indicating that the more MFIs become mature, the higher their profitability, so that as age going longer the profitability of Amara saving and credit institution will increase.

- Lack profitability of microfinance because of if term large amount of deposited account, little number of loan advance existence of high credit interest, and existence of large amount of saving of credit interest.

- Microfinance play a great role for the customer personal life and business activities by giving awareness about the service provided by microfinance and by saving their many to prevent them from unexpected dangerous and robbery.

- Microfinance also provides credit service which enables the customer to participate in different investment and this indirectly leader to reduce unemployment in the country opening job for job seekers.

- Lack of participative of microfinance on investment due to the newly established in recent year and due to their financial status, even though all bank is not participate on investment, most of the microfinance participate on investment and maximize their profit this indirectly leads/help to increase economy of the country.

- Lack of asset utilization and capitalization because microfinance expect that as asset utilization and capitalization increase as their also increase as their also increase of expenditure or cost.

- Low participation of customer to ask microfinance for loan advance or to borrowing many from microfinance because of, lack of awareness about borrowing system of the microfinance, fear of failure to repay the loan on the duet data, under valuation of collateral securities by the microfinance if the borrower of security and fixed prescription of acceptable collateral by the microfinance the customer participation to borrow was reduced.

5.2. Conclusion

Based on the findings the following conclusions were drawn: Currently, Ethiopia is following microfinance institutions to use one of the poverty alleviation instruments. The performance of Microfinance institution in Molale Town, Amhara credit and saving institution(ACSI). The finding about institutional factors such as absence of well-organized office ,training and growth of experience of employees, training and consultancy for borrowers, weak monitoring ,controlling and support system, inadequate loan capital ,lack of use of technology.

Hence the institution needs to work on awareness creation on cash management and enforcing the repayment through close monitoring and supervisions. Financial services were accessible for the majority of poor communities‟ .But the institution services not accessible for the poorest of the poor communities in the study area. The institution delivers financial services such as loans and savings but not insurance, money transfer and others. Instability Economic level of the country also had negative effects on the MFI's performance and living standard of the community.

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5.3. Recommendation

Financing structure and age are key factors affecting the profitability of Amara saving and credit institution in Molale Town. The management may need to develop good lending and borrowing policy and also try to manage challenges from past experiences, as we can see from this research the main source of micro finance institution asset is donation that means the saving and credit institution do not measure their effectiveness of their operation so that the management may need to operate by borrowing fund and membership contribution to increase profit that help the MFIs to come out from being dependent on donated funds.

In order to give the solution for the problem raised knowing of the cause of problem is required, the researcher suggest the following recommendation.

- To alleviate the problem related to the employees competiveness efficiency and time management habit increasing the micro financing services within a short period of time and to improve the customer handling technique of employee, the microfinance has to training to the employees and upgrade the level of employees competencies.
- It is advisable to introduce new technology, providing best financing products and service to maximize microfinance profitability.
- It is better to develop the habit of microfinance in the society and increase the awareness of the customer to reduce the problem related to large number of deposit and small amount of loan advance and also by improving the loan policies the microfinance would be helpful for increasing the number of loan and advance services user with a view to overcome difficulties.
- The microfinance should have to participate on investment by improving his financial statues and also should have to participate on asset utilization by controlling every activity of the microfinance system and up grading the capacity of worker. Some measures suggested on credit service were.

- The customer must able to produce acceptable evidence for verification of value of asset offered as security.

- Microfinance should maintain technical staff required valuation of assets to avoid complaints raised against be determined with reference of the earning capacity of the customers and by arranging the first installment after a reasonable time gap enable the borrower to establish his position and strength his repaying capacity.

- Developing the habit of micro financing and up grading the awareness of the customer and the society by giving training.

- The microfinance should take character and technical ability of the borrower, the prospective of the business or activities the nature and quality of good producer.

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APPENDIX

DEBREBIRHAN UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

Questionnaires to be filed by the customers of Amara saving and credit institution in molale town

Dear respondents:

This questioner is designed to collect information from **assessing factor affecting profitability of Amara saving and credit institution in molale town** from managers, supervisors and employees of the bank. I promise you all data you provide will be kept confidentially and will be used for academic purpose only. I therefore kindly request you to complete this questionnaire genuinely and honest. Please fill the questions provided below. Remark no need writing your name.

PART -1 QUESTIONAIREFOREMPLOYEES

1 General back ground

1.1 sex male ☐ female ☐

1.2age 18-25 ☐ 26-35 ☐ 36-50 ☐ above 50 ☐

1.3 education status

College diploma ☐

First degree ☐

Master ☐

1.2 position

Manager ☐

Supervisor ☐

Employee ☐

1.5 For how long have you been working in the micro finance? --------------------------------

PART – 2: Questionnaires about the organization.

2. Information on market situation and credit benefit.

2.1. Please list the major products and/or services produced from your business that is financed by the credit/loan from your customer microfinance institution

a/ --

b/ --

c/ --

2.2. How was the demand for your product that you produced and/or service rendered?

1. High 2. Average 3. Low

2.3. What was the trend of profits in the level of your business in the past 5 years?

1. Increased 2. Decreased 3. Stayed the same

2.4. If your response for question 4.3 is increased, what do you think is the reason behind?

1. Sufficient fund 2. Availability of market 3. Quality advantage 4. Favorable price

5. Other (please describe)___________________

2.5. Do you keep accounting records for your activities that you take the loan?

Yes _______ No ______

3: SUPERVISION, ADVISORY VISITS AND TRAINING.

3.1 Have you ever been supervised regarding loan utilization by OCSSCO staff?

1. Yes _____ No. _____

3.2 If yes to question No. 5.1, how many times were you supervised? ___

1. One 2. Two 3. Three and above

3.3. If yes to question 5.1, was it adequate in your opinion? _____

1.Yes _____ No _____

3.4 Did you get any training before receiving loan? _____

1.Yes _____ No ____

3.5 If yes, what kind of training was it? _____

3.6 What type of service does your organization provide to its customers? ------------------------------

3.7 Is the microfinance is profitable? Yes____ No ____

2.1. If the answer is NO what is the reason?--

What factors affect profitability? --

----

3. Which services are more demanded by your customer?

Saving deposit Fixed deposit

Demand deposit Time deposit

3.8 What security or securities are required for advancing loans to customers? -------------------------
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3.9 What are the methods used by the saving and credit institution to cover its loan? -------------------
----

3.10 What is the level of competiveness in the market?

Strong Medium Weak

3.11 What is the effect of market competition in the profitability of the saving and credit institution? --

3.12 Is there any decrease in number of borrowers due to the emergence of new competition?--------
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3.13 What is the problem in advancing and repayment of a loan? ---
----

3.14 What is the saving and credit institution strategies to compete with the competitor to maintain its market share?---
----

3.15 What are the main problems that the saving and credit institution currently faces? Specify. -----
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3.16. Is capitalization, asset utilization and professionalism affects the profitability of the saving and credit institution? Yes

3.16.1 If your answer is Yes how?---

3.16.2 If your answer is NO why--

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Part 3- Table 1 Answer about microfinance institution performances in Molale Town based on below criteria's (please use √)

1. Strongly disagree 2. Dis Agree 3. Neutral 4. Agree 5. Strongly agree

S.No	Answer about microfinance institution performances	1	2	3	4	5
	A. Institutional factors					
1	MFIs created awareness of employees and clients about the varies components of micro finance institutions					
2	MFIs developed effective and efficient financial service and control system					
3	Information communication technology adopted in the institution					
4	Employees have adequate skills and Experience to perform their job.					
5	MFIs provide sufficient training for developed skills and experiences of staffs					
	B. Economic factors					
1	MFIs operational cost is appropriate compare from its incomes					
2	Instability macro-economic creates influence on income of society and MFIs					
3	MFIs acquired upright supports by fund donors					
4	MFIs delivered adequate financial loans for all users					
5	MFIs based on economic status support the poorest of poo					
	C. Legislative and regulatory frame work					
1	Tax and other government payments distresses MFIs performance					
2	Government institutions and officials delivered adequate technical and legal support to MFIs					
3	Interest rate ceiling determine by the government created influence on MFIs performance					
4	MFIs borrowing Interest rate is very high not encourage customers to borrow and grow enterprise					
5	Government regulatory system influence financial and operating performance on MFIs					
	D. **Capital structure**					

1	MFIs created awareness of employees and clients about the varies how to structure their capital					
2	MFIs developed effective and efficient financial service and control system					
3	MFIs use information communication technology adopted in the institution to create knowhow how to structure the capita					
4	Employees have adequate skills and Experience to perform their job.					
5	MFIs provide sufficient training for developed skills and experiences of staffs					
	E. Profitability of the institution					
1	Profitability is increase by develop customer quality service					
2	Profitability of the institution increase by the number of customer increase					
3	Profitability of the institution is increase by expand the branch of institution s					
4	Profitability of the institution increase by adding interest rate					

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