Loan Disbursement and Collection of Microfinance Institutions in Bale Zone

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Abstract
Microfinance institutions (MFIs) in Ethiopia are considered as one of the crucial policy instruments. Even though they have shown a remarkable growth in outreach and performance in the last 20 years, still they are unable to meet the ever growing demand for loan and insurance service owing to the current loan disbursement and collection constraints in the study area. Despite its importance of such types of study was not investigated in the study area. The objective of this study was therefore to assess the loan disbursement and collection performances of microfinance institutions in Bale zone. Data was collected from 340 randomly selected households. Questionnaire and interviews were used to collect data from respondents. Purposive and stratified random sampling techniques were used to select the required sample size of sample officials and clients, respectively. Secondary data was also employed from three fiscal periods, 2005-2007 E.C. The study found that there was improvement on the loan disbursement and collection of the financial institutions. However, women participation in the study area was found to be significant. Based on the findings the study recommends that the MFIs along with other stakeholders should be encouraged to solve the loan disbursement problems of clients, improve loan size and extend the credit period and reduce the interest rates charged on loans.
Keywords: Microfinance, Loan Disbursement, Trend analysis, Bale zone

INTRODUCTION

Initially, the goal of most MFIs is to alleviate poverty by targeting clients who previously had no access to formal financial services. To a large extent, MFIs around the globe have succeeded in meeting this goal; indeed, it is safe to predict that the more MFIs are there, the more poor people will be able to invest in income-generating activities, accumulate savings, put their families on a more secure financial footing and generally improve their lives (Kristin, 2009).

Undoubtedly, microfinance institutions are improving the every-day life for millions of people around the world, and it has in the latest years been fronted as the "silver bullet" in alleviating poverty (Karnani, 2008). However, being self-sustainable is a major challenge in the industry and many of the MFIs are depending on donors (Mersland et al., 2008a). Providing small financial services involve high transaction costs in terms of screening, monitoring and administrative costs (Hulme et al., 1996). MFIs seeking financial sustainable operations have to charge high interest rates to cover the extra costs providing small loan amounts (CGAP, 2009c), which are far from being competitive against interest rates in commercial banks. The average cost of credit in developing countries is still much higher than in developed countries. Yet, what is more important than being competitive is that poor and low income people would benefit from a less expensive credit. Gonzalez (2007) reported that operational costs represent about 2/3 of charges to borrowers. Since operational costs are the largest component of interest rates, attention should be emphasized towards identifying their drivers and quantifying them in order to improve efficiency in MFIs.

Statement of the Problem

The Microfinance industry, along with all the players in it, is quickly changing. Today, the microfinance industry has become both more crowded and complex. The concept of microfinance no longer just covers microcredit only, but also includes the possibilities of saving, insurance and money transfer. Although MFIs are characterized as one type when it comes to financial services, there is a great variety of MFI's in terms of legal form, profit status, degree of sustainability and funding sources (Sima, 2013). The establishment of sustainable MFI that reach a large number of rural and urban poor who are not served by the conventional financial institutions, such as the commercial banks, has been a key component of the new development Strategy of Ethiopia (Alemayehu, 2008).

Even though MFIs have shown a remarkable growth in outreach and performance in the last 20 years, they are expected to expand significantly to meet the growing demand for loan, saving, insurance and money transfer service. Among the several challenges faced by the MFIs in Ethiopia, lack of loan fund to lend to clients, limited use of back-office and front-office technologies to improve the capacity of MFIs, limited capacity to attract skilled staffs who effectively deliver quality financial services to clients and high staff turnover, limited financial education to the public and limited capacity to mobilize savings are of great magnitude (Wolday, 2012). Thus, the intention of this study was to examine the financial and operational performance challenges of microfinance institutions in Bale zone.

General Objective

The general objective of this study is to examine the loan disbursement and collection of microfinance institutions in Bale zone.` Specific objectives of the study are:

- To analyze the trend of loan disbursement and collection in the Microfinance Institutions (MFIs) in Bale Zone.
- To examine the trend of loan collection in the Microfinance Institutions.

Research Design

This research was mainly designed to assess the loan disbursement and collections of the three MFIs found in Bale Zone namely PEACE, OCSSCO Goba branch and OCSSCO Robe/Sinanna branch. These MFIs are purposively selected due to their location of zonal offices & where major activities are held. Census was applied for officials/employees currently working in the selected MFIs since they were manageable. To draw the required sample size of clients/beneficiaries from the three MFIs 10,000 populations, stratified sampling technique was employed. Thus, 384 officials/employees and beneficiaries or clients were selected as subject of the study using Yamane's (1973) sample size determination formula. Both primary and secondary data collection sources were used. Using these two sources, the researcher applied different data collection methods such as questionnaires, interviews, focused group discussions and observation. Moreover, in the data collection methods of the unstructured questionnaire, close and open ended questions were included. Unstructured interviews were also conducted and employed with the help enumerators. Moderators were also took their part in facilitating focused group discussions of clients.

Descriptive and content analysis were used to analyze quantitative and qualitative data respectively. The descriptive data analysis comprised of trend analysis of financial ratios from the financial statements, portfolio and activity reports of the three selected MFIs. The study covered three consecutive fiscal periods, 2005E.C to 2007E.C. Finally, to keep the reliability and consistency of primary data collected, questionnaires and interviews were translated into Afan Oromo and Amharic languages.

Sampling Design and Sample Size Determination

Sample design specifies sampling technique used to draw true representative sample from the study population. Goba and Robe *Woredas* Microfinance Institutions (MFIs) were purposively selected due to the availability of MF branch offices and where major financial activities were held in these two towns. On top of this, potential beneficiaries such as TVET and university graduates who need more services from Microfinance Institutions in addition to the Small Scale Microenterprises as well as many poor residents are found in these two *Woreda* towns (zonal and *woreda* MFIs, 2015). Secondly, Oromia Credit and Savings Share Company (OCSSCO) and Poverty Eradication and Community Empowerment (PEACE) were selected purposively because of their dominance in credit and loan portfolio management along with their location of major *zonal* office.

Some scholars suggest application of the stratified sampling to determine representative sample size. Strata are purposively formed and are usually based on past experience and personal judgment of the researcher kotari (2004). According to, this proportional allocation, stratified sampling technique is considered most efficient and an optimal design when the cost of selecting an item is equal for each stratum, there is no difference in within-stratum variances, and the purpose of sampling happens to be to estimate the population value of some characteristic. The researcher prefers to conduct equal sample selection from each stratum would be more efficient even if the strata differ in sizes due to time and financial constraints. Thus, 338 total sample size/respondents were selected, nearly 100 and above from each strata or each stratum proportionally and intentionally.

Following their arguments, the researcher has adopted the under mentioned Taro Yamane's (1973) sampling formula was used at 95% confidence level.

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

Where: **n** = sample size,

N = Population size = 10,000,

e = sampling error/level of precision = 5%

To illustrate how the predetermined sample size of the total population is calculated as follows:

a) Applying the above formula,

$$n = \frac{10{,}000}{1+10{,}000\,(0.05)^2}$$

$$= \frac{10{,}000}{26}$$

= 384 sample respondents were considered

RESULTS AND DISCUSSION

This section of the data analysis and interpretation comprised of information gathered from documents and records of financial statements, operational and portfolio reports. Furthermore, the whole data analysis and interpretation was followed by convenient results and discussions in line with the research questions.

MFIs Loan Collection	Years of Operation				
PEACE/GOBA	**2005 E.C**	**2006 E.C**	**2007 E.C**	**Average**	**Growth Rate 2006/7**
Total loans disbursed	6,233,000	7,189,600	8,114,800	7,179,133	**12.87%**
Loan collection	4,520,819	5,167,177	5,390,154	5,026,050	**4.32%**
Outstanding loan	1,712,181	2,022,423	2,724,646	**2,153,083**	**34.72%**
OCSSCO/GOBA	**2005 E.C**	**2006 E.C**	**2007 E.C**	**Average**	**Growth Rate 2006/7**
Total loans disbursed	NA	NA	12,393,901	----	**----**
Loan collection	NA	NA	7,893,439	**----**	----
Outstanding loan	NA	NA	4,500,462	**----**	**----**
OCSSCO ROBE/SINANNA	**2005 E.C**	**2006 E.C**	**2007 E.C**	**Average**	**Growth Rate 2006/7**
Total loans disbursed	9,821,422	24,078,128	81,046,807	38,315,452	**236.60%**
Loan collection	3,827,528	15,885,062	16,353,819	12,022,136	**2.95%**
Outstanding loan	5,993,894	8,193,066	64,692,988	26,293,316	**689.61%**

Sources: Bale zone and *Woreda* branch MFIs, 2016

i) Loan Disbursement

In year 2005 PEACE MF planned to disburse EB 6,200,500 for a total of 1500 clients with the assumption that each will have an average loan of birr 4,134 as revealed in above table 4.1. However, the actual number of clients who took loan within the budget year were only 1,493 while the total amount of loan disbursed was EB 7,189,600 leaving the average loan size to be birr 4,793.70, which was more than the plan. Hence, the target achievement for the disbursement 116% that was a remarkable achievement more than the plan. The same was true for PEACE MF in 2006 and 2007. For instance, it planned to disburse EB 7,500,350 for a total of 1809 clients with the assumption that each will have an average loan of birr 3968.43. Whereas the clients took loan were 1,689 while the loan amount disbursed in 2007 was 8,114,800 the average loan size for clients 4,293.55 that were more than the plan. Thus, the target achievement for the disbursement 108% that was a remarkable achievement more than the plan. Furthermore, there was good achievement and growth of total disbursement, loan collection and outstanding loan in the MFIs selected. The data for OCSSCO Goba branch was not available. Considering the OCSSCO Robe/Sinanna branch case, in 2006 it planned to disburse a total of EB 24,078,128 to 4,470 clients as indicated in table 4.1 above whereas the actual amount of loan disbursed was birr 15,885,062 which enabled the firm to achieve only 65.97% of its plan. The reason for the lower achievement of disbursed loan seems that clients who were not active in terms of clearing their arrears or sum unpaid were terminated from the program to the extent of using their savings to offset. The outstanding loans and this made the repeat loans lower than what was expected. On the other hand, during 2007 OCSSCO Robe/Sinanna branch MFI planned to disburse a total loan of birr 84,246,800 but actually disbursed birr 16,353,819, which enabled the firm to achieve 19.41% of its plan. It seems that the lower loan disbursement rate was due to the unfair and less achievement of loan repayment and outreach program by the firm.

ii) Loan Collection

During 2005 to 2007 PEACE MF planned achievement in loan collection was a remarkable performance as the operation report revealed as 99%, 98.9% and 98% respectively for the fiscal periods mentioned. With regard to collection, OCSSCO Robe/Sinanna branch in 2005 to 2007 had also a remarkable trend, 100%, 99.80% and 90.90% respectively in the fiscal year. As it was explained earlier the data for OCSSCO Goba branch didn't available.

Table 4.2. Gross Savings, Withdrawals and Net Savings

MFIs	Branche	Items	Years of operation				
			2005 E.C	2006 E.C	2007 E.C	Average	Growth Rate 2006/7
PEACE	Goba	Gross savings	574,301	604,300	535,458	571,353	11.39%
		Withdrawals	330,050	406,700	416,213	384,321	2.34%
		Net savings	244,251	197,600	119,245	187,032	39.65%
OCSSCO	Goba	Gross savings	5,250,000	9,260,000	15,800,000	10,103,333.33	70.63%
		Withdrawals	1,200,000	5,320,000	V bbb hn	4,916,666.67	54.70%
		Net savings	4,050,000	3,940,000	7,570,000	5,186,666.67	92.13%
OCSSCO	Robe /Sinanna/	Gross savings	9,350,000	18,260,000	23,500,000	17,036,666.67	28.70%
		Withdrawals	4,335,000	10,310,000	13,100,000	9,248,333.33	27.06%
		Net savings	5,015,000	7,950,000	10,400,000	7,788,333.33	30.82%

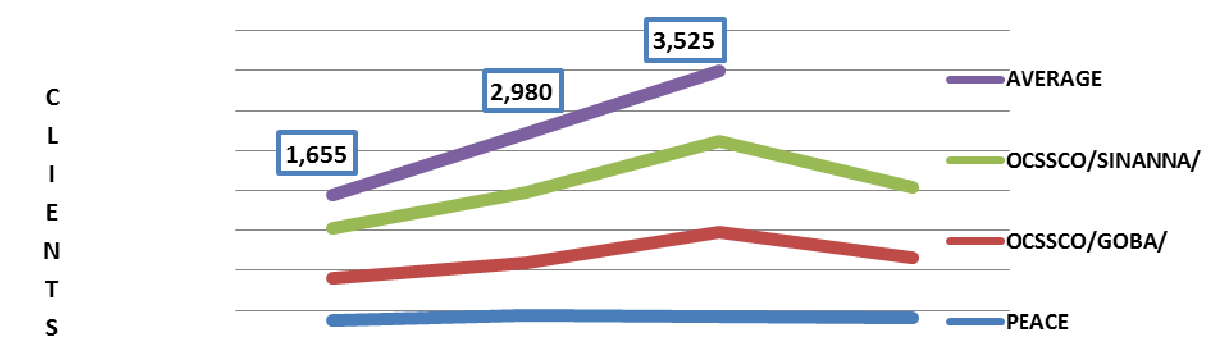
Source: Bale zone and *Woreda* branch MFIs, 2016

From the above table 4.2, there was an indication of which MFI mobilized savings and retain more money within the firm to get rid of financing problems for its operations. Hence, PEACE saved a gross amount of Br. 574,301and allowed withdrawal of 330,050, which showed a net savings of 244,251 in 2005, better performance than the other years of time. There was greater mobilization in 2006, 604,300, at the same time the firm also allowed withdrawal of 406,700 which resulted in the net savings of 197,600. It was similar for the year of operation in 2007. The MF encountered a declining rate of net savings in the year 2005 to 2007.

On the other hand, there was a good increasing trend in terms of both gross saving and net savings for OCSSCO Goba branch. For instance, in 2005 there was a gross savings of 5,250,000 of this amount only 1,200,000 was withdrawal. It had a net savings of 4,050,000 or 77.14% amount was not disbursed. Similarly, almost half of the gross saving was net savings in the year 2006. The gross savings reached 15,800,000 and withdrawal of 8,230,000 in 2007. Good achievement of net savings was also seen in OCSSCO Goba branch as compared to other counter parts, that was 5,186,666.67 or 92.13% net savings growth rate.

Active Clients and Dropout

Figure 4.1. Number of Active Clients



	2005	2006	2007	AVERAGE
AVERAGE	1,655	2,980	3,525	
OCSSCO/SINANNA/	2,500	3,496	4,580	3,525
OCSSCO/GOBA/	2,100	2,620	4,220	2,980
PEACE	1,493	1,784	1,689	1,655

FISCAL PERIODS

Source: Bale zone and *Woreda* branch MFIs, 2016

In each of the sampled MFIs as shown on figure 4.1, to increase the number of clients and at the same time to fill in the gap created by dropouts in fiscal years 2005 to 2007. Hence, a total of 351 new clients joined PEACE MFI in 2007 after passing the evaluation criteria. This includes replacement for client dropouts 208 (11.10%) from the balance of active clients at the end of the previous year (2006).

Whereas in the case of OCSSCO Goba branch, in 2006 a total of 3,180 clients took the orientation program and joined OCSSCO after completing the preliminary criteria which was encompassed 730 new clients as compared to 2005. In 2007 a total of 4,800 clients were registered in its branch was an increased by 1,620 new clients compared to 2006 and took the orientation programs and joined OCSSCO/Goba MFI. This includes replacement of client dropout 580 (12.08%) from the balance of active clients that was registered at the end of the previous year, 2006. OCSSCO Robe/Sinanna MFI also made client mobilization activities in 2006. As a result, a total of 3,980 clients had been registered and became client of the firm including existing and 1,180 newly enrolled. In 2007 a total of 5,300 clients were registered in the branch that showed increase of 1 320 new clients compared to 2006 and took the orientation programs and joined OCSSCO Robe/Sinanna MFI. This includes replacement of client drop out 720 (13.58%) in 2007 and from the balance of active clients at the end of the previous year, 2006. The dropout rates as the data obtained from the MFIs selected at the end of 2007 E.C were 10.63%, 12.08 and 13.58% for PEACE, OCSSCO Robe/Sinanna and OCSSCO/Goba branches respectively.

Conclusion

There was good achievement and growth of total disbursement, loan collection and outstanding loan in the MFIs selected except the data for OCSSCO Goba branch that was not available. The planned achievement in loan collection was a remarkable performance as the operation report revealed for PEACE and Robe/Sinanna branches during the fiscal period 2005 to 2007.

The result showed that there was a drastic change on both gross and net savings in all selected sample MFIs, especially in OCSSCO Goba and Robe/Sinanna branches in 2005 to 2007 fiscal periods. For PEACE MF, there was greater mobilization in 2006, 604,300, at the same time the firm also allowed withdrawal of 406,700 which resulted in the net savings of 197,600. It was similar for the year of operation in 2007. The MF encountered a declining rate of net savings in the year 2005 to 2007. For OCSSCO Goba branch, there was an increase of both gross savings and net savings that was 95.29% and 58.52% in the fiscal year 2005 to 2006. It was also similar for the operation year 2007 for OCSSCO Robe/Sinanna branch.

Even though there was dropout and conversely institutions engaged every year in client mobilization activities, there was an increase in overall number of clients and fewer drop out in all of the three MFIs in the sample. It seems that the major causes for the higher savings-withdrawals and client dropouts are: (1) the small loan size, (2) the short repayment period, and lack of generating good business idea on the side of clients.

As confirmed by the majority 181 (53.75%) and another 83 (24.65%) of the clients the loan size given to the clients is "Average" and "Small", respectively. Also, regarding the loan repayment period, slightly more than half 187 (55.53%) of the MFIs clients responded that the loan repayment period is quite "sufficient".

All the three MFIs included in the study undertake saving mobilization activities in years 2005 to 2007. In all of the three sampled MFIs savings shows increasing pattern. Accordingly, the reports obtained from PEACE MFI revealed that in 2006 savings (total) reached birr 1,886,900 from birr 899,900 in 2005, that is it is increased by 109%. However, compared to the set target, it achieved only 46.70%% of the plan. In 2007 PEACE declined in its gross savings plan though the achievement was 88.99% of the plan. During 2006 OCSSCO/ Goba planned to achieve birr 11,500,000 in gross savings but actually achieved birr 9,260,000 (or 80.52%) of its target. There was also remarkable savings plan growth of 47.44% from year 2005 to 2006. Similarly, the MFI planned a gross savings of 18,000,000 and achieved only 15,800,000 or 87.77% and showed an increase percent of 56.52 in its saving mobilization. From all the three MFIs gross savings 17,500,000 was the second great achievement for OCSSCO Robe/Sinanna branch in the year 2006. Out of this plan, 18,260,000 or 104.34%, more than the target was achieved. Furthermore, in the 2007 fiscal year OCSSCO Robe/Sinanna planned a gross savings of 21,500,000 and achieved 23,500,000 or 109.30% that was the first great performance from all of its counter parts in the year 2007. Overall, the MFIs included in the study seem efficient in mobilizing savings.

Above all, mobilization of saving is one of the focus areas of MFIs for several reasons: (1) to help clients accumulate own capital by way of saving, (2) the mobilized saving from clients is to be used to finance a good part of the program at relatively lower price than borrowed fund. It is indicated in the study that in all of the MFIs, client savings shows continuous increment over the three years period. Hence, this can be considered as the strengths of the institutions.

On the other hand, it is fact that the only source of revenue for MFIs is the revenue from loans. For the institutions to earn sufficient income, it has to disburse loans in sufficient amounts. However, as reports revealed the MFIs included in the study seem efficient in meeting their target. For any MFIs in order to function smoothly, it has to collect in sufficient amounts and on time the disbursed loan from the clients. Unless otherwise, MFIs collect their claims with great care and follow-up, their operations will be dismantled. However, it is indicated in the study that almost all of the MFIs in the sample achieved more or less nearer to their plan.

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