# FACTORS AFFECTING GROWTH AND SUSTAINABILITY OF MICROFINANCE INSTITUTIONS IN GURAGE ZONE

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# FACTORS AFFECTING GROWTH AND SUSTAINABILITY OF MICROFINANCE INSTITUTIONS IN GURAGE ZONE

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# DECLARATION

I, MUNA HABTE, hereby declare that this thesis titled *"Factors affecting Growth and Sustainability of Microfinance Institutions in Gurage Zone, Central Ethiopia Region"* is my original work. It has not been previously submitted for the award of a Master of Business Administration at this or any other university. I further declare that all sources of information and materials used in the preparation of this thesis have been appropriately acknowledged.

With high regards,

Candidate

Name: MUNA HABTE

Date……

Signature ……

# ADVISORS' APPROVAL SHEET

## SCHOOL OF GRADUATE STUDIES

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This is to certify that a thesis prepared by Muna Habte entitled as *"**Factors Affecting Growth and Sustainability of Microfinance Institutions in Gurage Zone"*** and submitted in partial fulfillment of the requirements for the Degree of Master in Business Administration complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

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As members of the Board of Examiners of the Masters of Art Thesis open defense examination, we have read and evaluated this thesis prepared by ***Muna Habte*** entitled as ***Factors Affecting Growth and Sustainability of Microfinance Institutions in Gurage Zone"*** and examined the candidate. We hereby certify that, the thesis is accepted for fulfilling the requirements for the award of the degree of Master of Business Administration (MBA).

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Final approval and acceptance of the Thesis is contingent upon the submission of its final copy to the Council of Postgraduate Program (CPGS) through the candidate's department or school graduate committee (DGC or SGC).

**April, 2025**

**Wolkite, Ethiopia**

## ACRONYMS AND ABBERVATIONS

| | |
|---|---|
| **CSA** | Central Statistical Agency |
| **MFIs** | Microfinance institutions |
| **MSEs** | micro and small enterprises |
| **NGO** | Non-Governmental Organizations |
| **ROA** | Return on Assets |
| **ROE** | Return on Equity |
| **NPL** | Non-Performing Loan |
| **ACSI** | Amhara Credit and Saving Institution |
| **DECSI** | Debit Credit and Savings Institution |

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## *ABSTRACT*

*Currently Microfinance institutions (MFIs) play a significant role in Ethiopia's financial sector. This study, focused on identifying determinants of growth and sustainability of MFIs in Gurage Zone, specifically in Wolkite, Emidibir and Agena towns, and selected three branch from each MFIs. Descriptive and econometric methods were employed to analyze the data collected from a sample of 92 respondents using structured questionnaires. The design of data was both qualitative and quantitative data type and random sampling methods were used. Primary sources were employed to gather reliable information from the respondents. The study considers respondents from three selected institutions namely, Omo, Metemamen and Meikilit. From the descriptive result, microfinance institutions (MFIs) in the Gurage Zone are generally perceived positively in terms of governance structure, with most respondents viewing it as effective. The majority of MFIs conduct regular strategic reviews, suggesting a focus on maintaining strong institutional performance. MFIs are seen as crucial for low and moderate-income individuals who lack access to banking services. The operational challenges include high operational costs, lack of skilled personnel, ineffective management practices, and poor technology infrastructure. The econometric model estimation the Operational challenges, Economic condition, and Source of funding have a positive coefficient, which indicates that the increment on the independent variable have direct impact dependent variables. But, Social affair have negative and significant impact on sustainability and growth of MFIs. MFIs should focus on improving the financial sustainability of institutions by strengthening financial management practices and diversifying funding sources to reduce dependence on grants, loans and risk management. The operational challenges should be addressed through strategic investments in staff training, better management practices, and technology upgrades. MFIs should advocate for regulatory frameworks that balance strictness and flexibility, particularly in areas like interest rates, credit limits, and licensing.*



***Keywords:*** *Financial Institution, Loan size, Financial Sustainability, microfinance growth*

# CHAPTERONE

# INTRODUCTION

## 1.1. Background of the Study

Microfinance institutions (MFIs) have emerged as critical catalysts for economic empowerment and poverty alleviation in developing countries. By providing financial services to underserved populations, MFIs have facilitated access to credit, savings, and insurance, empowering individuals and communities to invest in income-generating activities, improve livelihoods, and build resilience. The impact of MFIs has been particularly pronounced in rural areas where traditional financial institutions often have limited reach (Yunus, 2007).

However, the path to sustainable growth and impact for MFIs is fraught with challenges. A myriad of factors, including socio-economic conditions, institutional capacity, and regulatory frameworks, can significantly influence the performance and reach of these institutions. While MFIs have demonstrated their potential to drive positive change, their effectiveness is contingent upon a deep understanding of the complex interplay of factors that shape their operations and outcomes (Hulme, 2000).

The effect of capital structure on the financial sustainability of Ethiopian MFIs. The research found that capital-to-assets ratio and deposit-to-loan ratio positively influence operational self-sufficiency, while debt-to-equity ratio and deposit-to-assets ratio have negligible effects. MFIs carefully manage their portfolios and consider the impact of capital structure on long-term sustainability (Berhanu Shanco's 2022).

Yimer (2022) discusses the balance between regulatory frameworks and the social objectives of MFIs in Ethiopia. The study highlights that complex regulations can hinder the efficiency of MFIs, suggesting the need for a legal regime that supports both financial sustainability and social missions analyzed determinants of financial distress in Ethiopian MFIs such as age, capital adequacy, earning capacity, and liquidity significantly affect financial distress. The MFIs focus on loan monitoring, credit policy revisions, and capital management to mitigate financial distress (Bisrat et al., 2024).

The relationship between social and financial performance of MFIs in Ethiopia, indicate that outreach performance enables MFIs to achieve financial sustainability, and financially sound

MFIs can enhance social performance, suggesting no trade-off between the two objectives (Asmare, *B.* et al., 2024).

The Role of Microfinance in Development Microfinance has emerged as a powerful tool for addressing poverty and promoting economic development. By providing access to financial services to low-income individuals and small businesses, MFIs have contributed to a range of development outcomes, including increased income generation, job creation, and improved livelihoods. Moreover, MFIs have played a crucial role in empowering women, who often face significant barriers to accessing traditional financial services (Asmare B. et al., 2024).

The Context of Microfinance in Ethiopia has witnessed significant economic growth in recent years, accompanied by efforts to reduce poverty and inequality. However, despite progress, the country still faces significant development challenges, including high levels of poverty, unemployment, and inequality. The financial sector in Ethiopia has undergone reforms aimed at expanding access to financial services, but challenges persist, particularly in rural areas where the majority of the population resides (Addis Ababa Chamber of Commerce and Industry, 2020).

Microfinance has emerged as a key component of Ethiopia's financial inclusion strategy. The government has supported the growth of the microfinance sector through regulatory reforms and the establishment of a conducive environment for MFIs to operate. However, the sector faces a number of challenges, including limited financial resources, weak institutional capacity, and high operating costs (National Bank of Ethiopia, 2018).

The Gurage Zone, located in the central part of Ethiopia, is characterized by its predominantly rural economy, with agriculture as the main source of livelihood. The region has experienced relatively high levels of poverty and inequality, despite some improvements in recent years. The limited availability of formal financial services in the Gurage Zone has hindered the growth of small businesses and agricultural enterprises, contributing to persistent poverty (Central Statistical Agency of Ethiopia, 2020).

Against this backdrop, MFIs have the potential to play a significant role in promoting economic development and reducing poverty in the Gurage Zone. By providing access to credit, savings, and other financial services, MFIs can help to empower individuals and communities to overcome constraints and improve their livelihoods. However, the success of MFIs in the zone was depend on a range of factors, including the design and delivery of appropriate financial

products, the capacity of MFIs to reach and serve the target population, and the enabling environment provided by the government and regulatory authorities (Addis Ababa Chamber of Commerce and Industry, 2020).

While the benefits of microfinance are well-documented, it is important to acknowledge that the impact of MFIs can vary depending on a range of factors, including the specific context, the target population, and the design and implementation of microfinance programs. Some studies have raised concerns about issues such as high interest rates, over indebtedness, and limited outreach to the poorest of the poor. These challenges highlight the need for careful evaluation and adaptation of microfinance programs to ensure that they achieve their intended goals (Hulme, 2000).

The reliance on donor funds and the prevailing macroeconomic conditions significantly affect the sustainability and efficiency of Ethiopian MFIs. Excessive dependence on grants can undermine financial sustainability, while macroeconomic stability can enhance operational efficiency. Strategies such as diversifying funding sources and adapting to economic changes are crucial for long-term viability **(**Shifa, M. 2015).

Access to essential infrastructure, including reliable electricity and suitable working premises, is vital for MFI operations. Additionally, establishing strong market linkages and customer networks enhances outreach and financial performance. Addressing infrastructure deficits and improving market access are essential for the growth and sustainability of MFIs (Journal of Innovation and Entrepreneurship 2022).

### 1.2. Statement of the Problem

Microfinance institutions (MFIs) in Ethiopia play a crucial role in providing financial services to low-income individuals and small businesses, contributing to poverty reduction and economic development. However, despite the significant impact of MFIs, several factors hinder their growth and long-term sustainability. These challenges include inadequate capital, poor financial management, regulatory constraints, and limited outreach, especially to rural areas. Furthermore, the lack of appropriate infrastructure, high operational costs, and vulnerability to economic instability pose risks to the sustainability of MFIs (Yunus, 2006).

MFIs often struggle to reconcile their dual mission of achieving financial sustainability while serving low-income and marginalized communities. This tension can lead to mission drift, where the focus shifts from serving the poor to prioritizing profitability (Asmare B, et al., 2024).

Ensuring financial sustainability is crucial for MFIs to maintain operations and expand services. Factors such as capital adequacy, operational efficiency, and effective financial management significantly influence their financial health (Salilew, M. S. 2023).

While MFIs aim to extend services to underserved populations, they encounter operational challenges that limit their outreach, particularly in rural areas. Addressing these constraints is essential to enhance their impact on poverty alleviation and economic development (Research Publish Journals 2016).

The Gurage Zone in Central Ethiopia Region, characterized by its predominantly rural economy and high poverty rates, presents a unique context for examining the factors influencing the growth and sustainability of MFIs. Despite the increasing presence of MFIs in the region, there is a paucity of empirical research specifically focused on understanding the dynamics of microfinance in the Gurage Zone. Consequently, there is a knowledge gap regarding the socio-economic factors driving microfinance demand, the financial performance and sustainability of MFIs, the impact of institutional factors on MFI operations, and the role of the regulatory environment in shaping MFI development (Abdulahi, T. et al., 2021).

The limited understanding of these factors poses significant challenges for MFIs, policymakers, and other stake holders in the Gurage Zone. Without a clear understanding of the underlying issues, it is difficult to develop effective strategies to enhance MFI performance, expand outreach, and maximize social impact. As a result, the potential of microfinance to contribute to poverty reduction and economic development in the region remains untapped.

This study aims to address these challenges by investigating the factors affecting the growth and sustainability of MFIs in the Gurage Zone. By examining the socio-economic context, the financial performance of MFIs, the impact of institutional factors this research seeks to provide evidence-based insights to inform policy making, MFI operations, and future research.

The research aimed to contribute to the understanding of microfinance in the Gurage Zone,

Central Ethiopia Region. By investigating socio-economic factors, institutional performance, and regulatory influences, the study sought to provide insights for enhancing the growth and sustainability of microfinance institutions in the region. The research was conducted through a combination of qualitative and quantitative methods, including surveys, interviews, and financial data analysis.

## 1.3. Objectives of the Study

### 1.3.1 General objective:

The main objective of this study was identifying key factors affecting growth and sustain ability of microfinance institutions in Gurage Zone.

### 1.3.2 Specific Objectives:

- To identify the socio-economic factors influencing microfinance growth
- To show the organization specific factors affecting sustainability of microfinance institutions
- To identify regulatory factors impacting MFI expansion and sustainability in the Gurage Zone

## 1.4. Research Questions

- What are the socio-economic factors determining microfinance institutions growth in the Gurage Zone?
- What are the institutional factors that determine microfinance institutions sustainability & growth in Gurage Zone?
- How does regulatory factor affect microfinance institutions expansion and sustainability in Gurage Zone?

### 1.5. Scope of the Study

This research aimed to understand the factors influencing the growth and sustainability of microfinance institutions (MFIs) in the Gurage Zone, Ethiopia. The study explored the interplay of socio-economic factors, such as income, education, gender, and access to financial services, to identify the demand for microfinance. Additionally, the study investigated internal factors within MFIs, including governance structures, management efficiency, and human resource capacity, and their impact on operational effectiveness and overall performance. Finally, the research assessed the influence of the regulatory and policy environment on MFI growth, sustainability, and outreach by analyzing relevant laws, regulations, and policies. Moreover, this study aimed to conduct a sample survey of microfinance institutions operating in the Gurage Zone, Wolkite Town.

### 1.6. Significance of the Study

This study was important in many aspects. First, it contributed to the growing body of knowledge on microfinance by providing empirical evidence on the factors influencing the growth and sustainability of MFIs in the specific context of the Gurage Zone, Ethiopia. MFIs provide access to financial services (such as loans, savings, and insurance) to low-income individuals who are excluded from traditional banking systems. In Gurage Zone, many people live in rural areas where access to financial services is limited, so MFIs play a crucial role in improving livelihoods by offering small loans for income-generating activities. Microfinance has a positive impact on empowering women by providing them with the financial means to start or expand businesses, thus contributing to economic and social equality. In rural areas like those in Gurage Zone, women often face barriers in accessing capital, and MFIs can break these barriers. By providing small loans to local entrepreneurs, MFIs stimulate small businesses and create jobs in the region. This leads to overall economic growth in the Gurage Zone and helps diversify the local economy.

MFIs play a significant role in bringing excluded populations into the formal financial system, providing access to savings, insurance, and credit services that were previously unavailable. Microfinance can reduce inequality by fostering the development of marginalized communities. By helping people start businesses and improve their living standards, MFIs help increase

education, health, and social well-being. The findings informed policy reforms aimed at creating a conducive environment for microfinance development and promoting financial inclusion.

Finally, the development of a comprehensive framework for enhancing MFI growth and sustainability provided practical guidance for stakeholders involved in the microfinance sector. The framework served as a roadmap for improving MFI performance, expanding outreach, and maximizing social impact. By addressing these research objectives, the study made a significant contribution to the understanding of microfinance in the Gurage Zone and provided valuable insights for policymakers, practitioners, and researchers working to promote financial inclusion and poverty reduction. actors affecting growth, and sustainability of microfinance institutions (MFIs) in Gurage Zone are important to understand in the context of promoting economic development, financial inclusion, and poverty reduction. Here's an overview:

### 1.7. Organization of the Study

This study had five chapters. The first chapter addressed the introduction of the study, background of the study, statement of the study, research objectives and questions, the study's significance, the scope of the study, definition of key terminologies, limitations encountered, and the organization of the research. The second chapter covered the theoretical reviews, empirical reviews, and identified research gaps, along with the formulated conceptual frameworks of the study. The third chapter discussed the key elements of the research methodology, including research approaches, study design, target populations, sampling methods and techniques, source and type of data, methods of data collection and instruments, data analysis, and the variable description and measurement. The fourth chapter presented the results and discussions of the survey data, with detailed analysis and interpretations. The final chapter summary, conclusions, and recommendations.

# CHAPTERTWO

# REVIEWS OF RELATED LITERATURE

## 2.1. Introduction

This chapter seeks to delve in to the body of literature which is concerned with issues of factors affecting growth and sustainability of micro finance institutions in Gurage zone. As a result of analysis, the study establishes a theoretical framework by integrating essential findings from other studies. It also identifies the areas of knowledge and hence set a step forward for more research in the field for the future

### 2.1.1 Concept of Microfinance Institutions Growth

MFIs must strike a balance between charging sustainable interest rates and ensuring that borrowers can repay their loans. Adequate capital resources are required to absorb potential risks and fund the expansion of services. Efficient processes, such as loan collection, credit risk management, and cost control, directly impact financial sustainability (Ledgerwood, 1999).

The demand for microfinance services is influenced by socio-economic conditions, local entrepreneurship, and financial literacy. High levels of poverty, unemployment, and lack of access to traditional banking services increase the demand for microfinance in the Gurage Zone (Khandker, 2005). The level of small-scale business activity in the region also influences the need for microfinance products to support business growth. The extent to which people understand financial products can shape their willingness and ability to engage with MFIs.

Institutional factors refer to the internal dynamics of MFIs, which can enhance or limit their ability to grow and remain sustainable: Effective governance structures, skilled management, and transparency are crucial for strategic decision-making and risk management (Gonzalez, 2010). Efficient management of loan portfolios, including reducing default rates, plays a significant role in maintaining financial health. Trained, motivated staff who understand the local context and are committed to the MFI's mission contribute to institutional effectiveness.

Policies regulating interest rates, loan amounts, and other financial practices influence the operation of microfinance institutions. In many cases, governments also establish licensing requirements and oversight mechanisms. Supportive policies that encourage financial inclusion and provide incentives for MFIs can facilitate growth and sustainability (Sarma, 2008).

Inflation, economic growth, and changes in market conditions can affect borrowers' ability to repay loans and the overall demand for financial services. The rise of mobile banking and digital platforms can enhance outreach, improve operational efficiency, and reduce costs, leading to greater sustainability (Aghion et al., 2006). Local cultural attitudes toward borrowing, saving, and entrepreneurship can influence the acceptance and demand for microfinance products (Robinson, 2001).

Microfinance often targets women and marginalized groups, providing them with financial tools to improve their lives and businesses (Pitt & Khandker, 1998). The impact of microfinance on poverty reduction is a critical aspect of its sustainability. Successful MFIs contribute to economic empowerment and the overall improvement of living standards in their communities (Khandker, 2005).

### 2.1.2. Concept of Microfinance Institutions' Sustainability

The sustainability of Microfinance Institutions (MFIs) encompasses their ability to maintain financial viability while achieving social objectives, such as poverty alleviation and financial inclusion. This dual focus requires MFIs to balance operational efficiency with outreach to underserved populations. Key factors influencing MFI sustainability include revenue diversification, capital structure, social performance management, and the interplay between outreach and financial self-sufficiency (Ghising, T. 2023).

According to Bogan (2012), the relationship between MFI size and financial sustainability, suggesting that larger institutions (based on assets) are more financially sustainable. Large firms enjoy advantages such as economies of scale, experience, brand name recognition and market power compared to smaller ones. Similarly, large MFIs are more accessible to commercial funding and other financial resources, enhancing their financial sustainability.

Sustainability of microfinance institutions means the long-term continuation of the microfinance program, which includes continuity of financial and non-financial services of microfinance institutions. The sustainability of microfinance institutions are measured by using a portfolio, performance, financial management, and profit-to-financial ratio. In the present study, the sustainability of microfinance considered as a long-term continuation of the program that benefits all stakeholders in the microfinance sector and society. Most microfinance institutions

devote their efforts to achieving the social and financial goals of the organization (Ghising, T. (2022).

## 2.2. Theoretical review of related literatures

### 2.3. Microfinance Institutions in Ethiopia

MFIs in Ethiopia provide both saving and credit service. In relation to savings, they use both voluntary saving and compulsory saving. Compulsory saving is commonly a condition for releasing credits. MFIs in Ethiopia use group lending with joint liability. Groups are formed based on self-interest with no intervention of microfinance institutions. Under Ethiopian laws, debtors are assumed to be jointly and severally liable unless it is expressly provided otherwise by contract. In joint and several liabilities, any one of the debtors is responsible for the whole debt and can be sued in a court of law for the total amount of the loan the group has borrowed. The microfinance institution, therefore, can bring a legal action against one of the debtors for the payment of the whole unpaid loan and the member's properties can be used to satisfy the loan. Generally, the group lending system is a good screening mechanism to select potential beneficiaries, who are considered to have high moral value, to be free from other debts, and ready to use the money for productive engagements (Yimer, 2022).

The Ethiopian microfinance sector has witnessed substantial growth over the past decades. Established to cater to the financial needs of the impoverished, MFIs in Ethiopia have significantly expanded their outreach. Recent data indicates that the number of active clients served by Ethiopian MFIs has seen a remarkable increase, underscoring the sector's rapid expansion. Prominent institutions such as the Amhara Credit and Saving Institution (ACSI) and the Dedebit Credit and Savings Institution (DECSI) have emerged as some of the largest MFIs in Africa concerning active borrowers and gross loan portfolios.

Despite this growth, Ethiopian MFIs face challenges, including limited access to capital, regulatory constraints, and operational inefficiencies. Addressing these issues is crucial for the continued development and sustainability of the sector. Microfinance is highly regulated in Ethiopia and operates under strict supervision of the National Bank. Regional states are totally stripped of any control in relation to MFIs in Ethiopia. The regional powers should be given more regulatory power in relation to MFIs to avoid unnecessary costs and to provide effective support to help them achieve their social and business objectives efficiently. The National Bank

could delegate some of its powers to regional offices, which could regulate and support institutions operating in their respective regions. However, giving regional governments the mandate to provide prudent supervision and support to MFIs requires considering the nature and purpose of microfinance institutions (Tadesse, A. (2023).

### 2.4. Importance of Microfinance Institutions

Microfinance institutions (MFIs) play a crucial role in providing financial services to low-income individuals and small businesses that lack access to traditional banking. They offer microloans, savings accounts, insurance and financial literacy programs, enabling economic empowerment, poverty reduction, and entrepreneurship development. MFIs contribute to financial inclusion, particularly in rural areas, by fostering self-employment and improving livelihoods. MFIs are crucial in promoting economic development by providing financial services to micro and small enterprises (MSEs). In Ethiopia, these institutions have been vital in supporting MSEs, which form a significant part of the economy. Access to microfinance has empowered these enterprises to expand, create employment opportunities, and contribute to poverty reduction. Moreover, Ethiopian MFIs have adopted balanced scorecard approaches to evaluate their performance, ensuring the fulfillment of both financial and social objectives. Furthermore, MFIs contribute to financial inclusion by offering savings, credit, and insurance services to low-income households. This inclusion fosters economic empowerment and enhances the resilience of communities against financial shocks (Zewdu, S. et al., 2022).

### 2.5. Determinants of Microfinance Institutions Growth and Sustainability

Several factors influence the growth and sustainability of MFIs in Ethiopia: Sustainability is closely tied to financial health. Studies have highlighted that Ethiopian MFIs often face challenges in achieving financial sustainability, with many relying on subsidies and struggling to attain operational self-sufficiency. Factors such as operating expenses and return on assets significantly impact their financial viability (Kinde, 2012).

The extent of outreach, measured by the number of active clients and loan portfolio size, plays a vital role in sustainability. Research indicates a positive correlation between the breadth of outreach and operational self-sufficiency among Ethiopian MFIs. However, challenges persist in balancing outreach with financial performance (Ethiopian Jornal of economics, 2012).

The legal and regulatory framework governing MFIs significantly affects their operations. In Ethiopia, regulatory challenges, including stringent licensing requirements and limited access to capital, have been identified as barriers to MFI growth. Recent economic reforms aim to attract foreign direct investment, which may influence the regulatory landscape for MFIs (Berhanu, D. et al., 2023).

The competence of management and staff, along with robust institutional structures, is crucial. Challenges such as inadequate infrastructure, including limited access to technology, hinder the efficiency and sustainability of MFIs in Ethiopia. Investments in technology and capacity building are essential to enhance institutional performance (Fikadu, T et al., 2023).

### 2.5.1. Socio-Economic Factors and Microfinance Demand

The demand for microfinance services is influenced by a complex interplay of socio-economic factors. Numerous studies have explored these relationships, uncovering significant correlations between various socio-economic indicators and the likelihood of seeking microfinance. Income, education, gender, occupation, and household size are among the key factors that have been consistently identified as influencing microfinance demand (Sharma et a., 1999).

Income level is a particularly salient factor in determining microfinance demand. Individuals with lower incomes are often more likely to rely on microfinance as a means to supplement their livelihoods and meet basic needs. This is particularly evident in rural areas where traditional financial institutions may have limited reach and alternative sources of credit are scarce. Studies by Hulme and Mosley (1996) have highlighted the strong correlation between income levels and microfinance utilization among low-income populations.

According to (Hermes et al., 2003) Education levels also play a crucial role in shaping microfinance demand. Individuals with higher levels of education are more likely to be aware of financial products and services, including microfinance. Moreover, education can enhance an individual's financial literacy, enabling them to make informed decisions about borrowing and repayment and importance of education in facilitating effective utilization of microfinance services.

Gender is significant factor influencing microfinance demand. Women often face unique challenges in accessing traditional financial services due to discriminatory practices. Microfinance institutions have been instrumental in empowering women by providing them with

access to credit and savings. Studies have shown that women are more likely to use microfinance loans for productive purposes, such as investing in their businesses or education (Yunus, 2007).

Household size can also impact microfinance demand. Larger households may have greater financial needs and may be more likely to seek microfinance to support their families. However, household size can also present challenges in terms of repayment capacity and creditworthiness. Understanding the relationship between household size and microfinance demand is essential for designing effective microfinance programs that cater to the needs of diverse households (Morduch, 1999).

Gender plays a pivotal role in shaping microfinance demand, particularly in developing countries where women often face significant barriers to accessing traditional financial services. Historically, women have been marginalized by formal financial institutions, leading to their exclusion from the financial system (Pitt and Khandker, 1998). This exclusion has limited their economic opportunities and contributed to gender inequality.

Microfinance institutions have recognized the potential of empowering women through access to financial services. By providing women with credit, savings, and insurance, MFIs can help to break down gender barriers and create new economic opportunities. Studies have shown that empowering women through microfinance can lead to improved household welfare and economic outcomes. Women are more likely to invest the rmicro finance loans in productive activities, such as education, health, and small businesses, which can have far- reaching benefits for their families and communities (Tewodros, A et al., 2022).

The impact of microfinance on women's empowerment is multifaceted. By providing women with financial independence, microfinance can enhance their decision-making power within households and communities. This can lead to increased investment in education and healthcare, improved nutrition, and reduced child labor. Moreover, empowering women through microfinance can contribute to broader social and economic development, as women are more likely to reinvest their earnings in their communities and businesses (Yunus, 2007).

In rural areas like the Gurage Zone, land ownership, agricultural productivity, and exposure to shocks are critical factors influencing microfinance demand. Smallholder farmers, who form a significant portion of the rural population, often face unique challenges in accessing traditional financial services. Microfinance can provide a valuable solution for these farmers, offering them

the opportunity to invest in agricultural inputs, purchase livestock, or cope with unexpected expenses (Binswanger et al., 1993).

Land ownership plays a crucial role in determining microfinance demand among smallholder farmers. Those with secure land tenure are more likely to have the confidence and collateral to access microfinance. Land ownership can also provide a stable income base, which can enhance the ability to repay loans. Conversely, farmers with insecure land tenure may face greater challenges in accessing and utilizing microfinance (Binswanger et al., 1993).

Agricultural productivity is another important factor influencing microfinance demand. Farmers with higher yields and incomes are more likely to have the financial capacity to repay loans. However, agricultural productivity can be highly variable due to factors such as weather, pests, and market fluctuations. Microfinance can help farmers to manage risk and improve their resilience to shocks by providing access to credit and savings. Additionally, microfinance can support farmers in adopting more productive agricultural practices, which can increase their incomes and reduce their reliance on microfinance (Binswanger et al., 1993).

### 2.5.2. Micro finance Demand in Ethiopia

The microfinance demand is extensive, research specifically focused on Ethiopia is relatively limited. This lack of empirical evidence presents a challenge in understanding the unique factors influencing microfinance demand within the Ethiopian context. However, existing studies provide valuable insights into the socio-economic conditions that shape microfinance utilization in the country (Alemayehu & Teshome, 2010).

Conducted a study examining the determinants of microfinance demand among rural households in Ethiopia their research identified several key factors influencing microfinance utilization, including income, education, and household size. Individuals with lower incomes were more likely to seek microfinance as a means to supplement their livelihoods, while higher levels of education were associated with greater awareness of financial products and services. Additionally, household size played a role in determining microfinance demand, as larger households often had greater financial needs (Bekele, D. 2022).

Other studies have explored the role of gender in influencing microfinance demand in Ethiopia. Women, who often face unique challenges in accessing traditional financial services, have

emerged as a significant target market for microfinance institutions has that empowering women through access to microfinance can lead to improved economic outcomes (Alemu, M et al., 2021).

Geographical location plays a significant role in influencing microfinance demand in Ethiopia. In rural areas, where access to formal financial services is limited, microfinance institutions have seen increased penetration. Studies indicate that the availability of these institutions can contribute to poverty reduction and economic development by providing farmers and small businesses with access to credit and savings (Ayalew & Tesfaye, 2023).

The regulatory environment also plays a crucial role in shaping microfinance demand in Ethiopia. The government has implemented various policies and regulations to promote the growth of the microfinancesector. These policies, such as the establishment of a regulatory framework and the provision of technical assistance, have created a more conducive environment for microfinance institutions to operate. However, challenges remain in terms of enforcement and the need for further regulatory reforms to support the sustainable growth of the sector (National Bank of Ethiopia, 2018).

To gain a comprehensive understanding of the socio-economic factors driving microfinance demand in the Gurage Zone, it is essential to delve into the region's unique characteristics. These factors include the prevalence of subsistence agriculture, the level of rural poverty, and the Availability of alternative financial services. By examining these aspects, we can better appreciate the specific needs and challenges faced by the Gurage population and how microfinance can address them (Central Statistical Agency of Ethiopia, 2020).

The availability of alternative financial services in the Gurage Zone is limited, particularly in rural areas. Traditional financial institutions often have a narrow reach, leaving many individuals and businesses underserved. Microfinance institutions can fill this gap by providing accessible and affordable financial services to the underserved population (National Bank of Ethiopia, 2018).

Subsistence agriculture is a dominant economic activity in the Gurage Zone, with a large portion of the population relying on farming for their livelihoods. This dependence on agriculture exposes the population to various risks, such as weather-related shocks, market fluctuations, and

crop failures. Microfinance can play a crucial role in helping farmers to manage these risks and invest in productive agricultural practices. Poverty can limit access to financial services and hinder economic opportunities. Microfinance can provide a lifeline for the poor by offering affordable credit and savings options, enabling them to invest in income-generating activities and improve their livelihoods (Central Statistical Agency of Ethiopia, 2020).

In conclusion, the demand for microfinance services in the Gurage Zone is influenced by a complex interplay of socio-economic factors. While the general literature provides a solid foundation, a more in-depth understanding of the specific context of the Gurage Zone is necessary to identify the primary factors driving microfinance demand among the population. By examining the prevalence of subsistence agriculture, the level of rural poverty, and the availability of alternative financial services, this study aims to contribute to the existing knowledge on microfinance demand in Ethiopia (Alemayehu & Teshome, 2010).

### 2.5.3. Institutional Factors affecting MFI Growth and sustainability

Institutional factors significantly influence the growth and sustainability of Microfinance Institutions (MFIs). Key determinants include capital adequacy, breadth of outreach, size, leverage, and the age of the institution .A recent study indicates that these factors substantially impact the financial viability of MFIs, with larger and more experienced institutions demonstrating enhanced sustainability. Effective risk management practices are also crucial. Guidelines emphasize the necessity for MFIs to implement robust risk management frameworks to identify, measure, monitor, and control potential risks (Abebe, et al., 2023).

### 2.5.4. Regulatory frameworks in Microfinance institution operations

The regulatory environment plays a crucial role in shaping the operations of Microfinance Institutions (MFIs). Some countries apply banking regulations to oversee MFIs, which can ensure financial stability but may also impose complex and burdensome requirements, potentially hindering MFI efficiency and outreach capabilities. Recent legislative changes have aimed at modernizing the financial sector, including the approval of laws that allow foreign banks to operate, with the goal of attracting international investment and enhancing the competitiveness of local financial institutions, including MFIs (Johnson & Teshome, 2022).

### 2.5.5 Factors Affecting Growth and Sustainability of MFIs

Beyond institutional and regulatory considerations, several additional factors influence the growth and sustainability of MFIs: Countries have undertaken significant economic reforms, such as floating their currency and opening the banking sector to foreign competition, to attract foreign direct investment and stimulate economic growth, which creates a more conducive environment for MFIs. However, over-indebtedness, often due to asymmetric information, can lead to higher default rates, affecting MFI sustainability. Implementing group lending methodologies has been proposed as a strategy to mitigate this risk. Moreover, the social outreach of MFIs, measured by the number of clients served and the diversity of services offered, is crucial for their long-term sustainability (Kebede & Woldemariam, 2022).

### 2.6. Empirical Reviews

The empirical literature suggests that the growth and sustainability of microfinance institutions depend on a combination of factors, including effective management, access to capital, regulatory support, market demand, and social impact. MFIs that focus on improving operational efficiency, managing risks, adopting technology, and staying connected to their target communities tend to achieve greater success.

Access to capital is a crucial factor for the growth and sustainability of MFIs. Studies show that MFIs with better access to funding from both internal (savings, deposits) and external (loans, equity investments) (Rhyne, 2001). Effective management and strong governance structures are critical to the growth and sustainability of MFIs. Studies have shown that MFIs with professional management teams, strong leadership, and a transparent governance structure tend to be more successful in both reaching new clients and maintaining financial stability (Armendáriz & Morduch, 2010).

Operational efficiency is a key determinant of financial sustainability. Research suggests that MFIs with higher operational efficiency (lower operational costs relative to the size of their loan portfolios) can sustain themselves for longer periods (Cull et al., 2007). The use of technology to improve processes, such as loan management and client tracking, has been shown to reduce transaction costs, increase outreach, and enhance customer satisfaction. MFIs operate is a key factor influencing their growth and sustainability Nair & Nair (2005) showed that MFIs in countries with supportive legal frameworks that facilitate financial inclusion, credit guarantees, and interest rate flexibility are more likely to expand their operations.

### 2.6.1 Socio-Economic Factors Influencing Microfinance Demand

A comprehensive literature review was conducted to identify existing studies on the determinants of microfinance demand, particularly in developing regions. Relevant economic theories, such as the life cycle hypothesis and the theory of consumer behavior, will be explored to provide a theoretical foundation for understanding how socio-economic factors influence individual demand for microfinance. A conceptual framework was be developed to illustrate the hypothesized relationships between key socio-economic factors, such as income, education, household size, and occupation, and microfinance demand. While previous research has examined microfinance demand, there is a need to identify the specific socio-economic factors that significantly influence demand in the Gurage Zone, particularly considering the unique context and characteristics of the region (Wolde, G et al., 2023).

### 2.6. 2 Financial Performance of MFIs

A comprehensive literature review will be conducted to identify existing research on the financial performance of microfinance institutions (MFIs), particularly in developing countries. Relevant financial theories, such as capital structure theory and agency theory, will provide a theoretical framework for understanding the factors that influence MFI financial performance. A conceptual framework will be developed to illustrate the relationship between MFI financial performance and key financial ratios, such as Return on Assets (ROA), Return on Equity (ROE), and Non-Performing Loan (NPL) ratios. While prior studies have examined MFI financial performance, there is a need to assess the specific financial performance of MFIs in the Gurage Zone and compare them to industry benchmarks (Mengistu & Fikru, 2023).

### 2.6.3 Regulatory Factors Impacting MFI Expansion and Sustainability

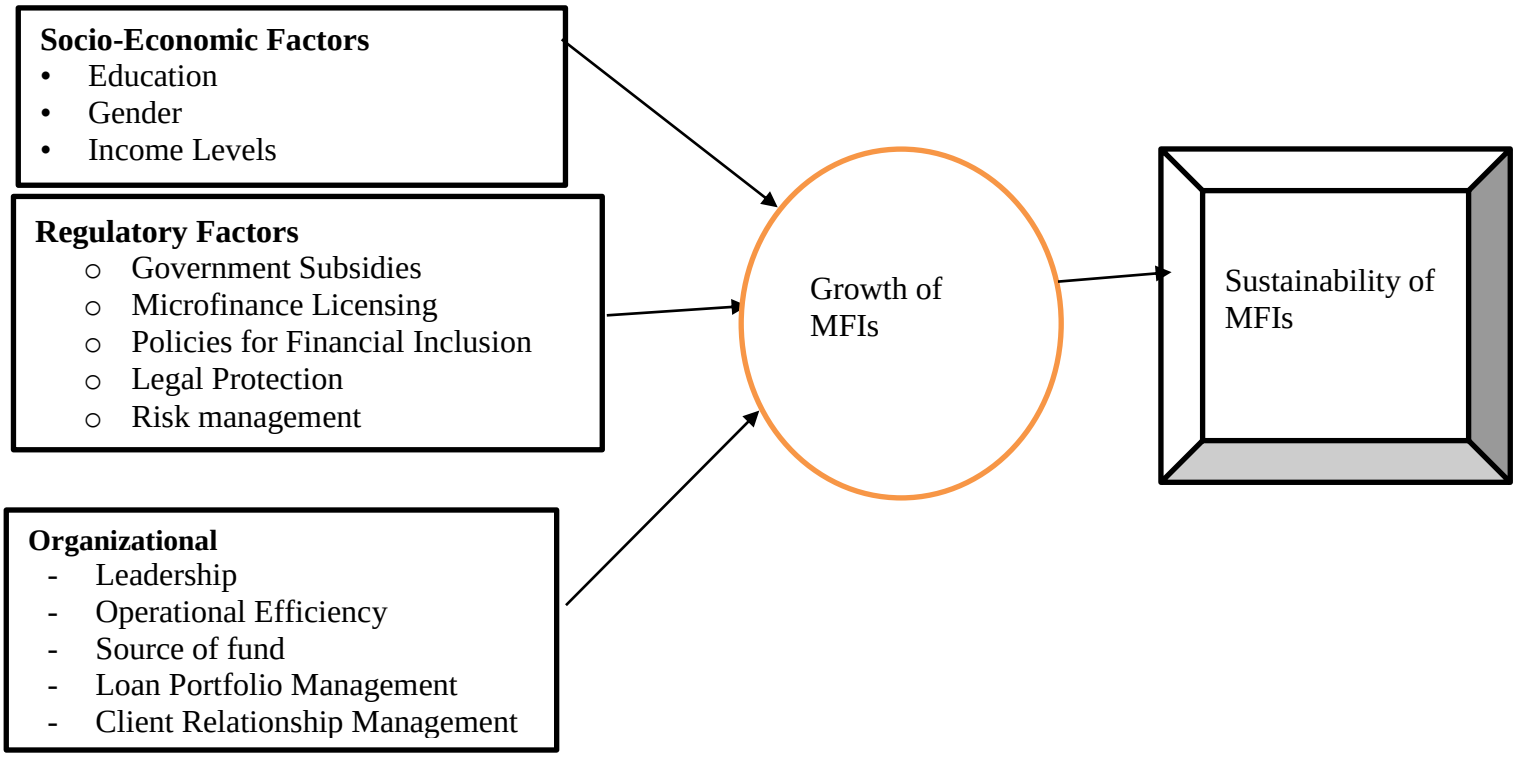
A literature review will be conducted to identify existing studies on the impact of regulations on MFI development, particularly in developing countries. Relevant regulatory theories, such as the theory of regulation and the theory of public choice, will be explored to provide a theoretical foundation for understanding the impact of regulations on MFI operations. A conceptual framework will be developed to illustrate the relationship between regulatory factors, such as licensing requirements, interest rate caps, and reserve requirements, and MFI expansion and sustainability. While previous research has examined the impact of regulations on MFIs, there is

a need to identify the specific regulatory factors that impact MFI expansion and sustainability in the Gurage Zone (Hanna et al., 2023).

### 2.7. Conceptual Frameworks

Conceptual frame work explains the relationship between the dependent variable and independent variable. In this study the independent variable are financial performance, on the MFIs namely capital adequacy, economic factor, social, geographical, leverage, breadth of outreach, age of MFIs, size of MFIs, inflation and GDP whereas dependent variable is growth and sustainability of MFIs Gurage Zone.

**Figure 2. 1 Conceptual Frameworks**




Source: Ali, S., & Rao, H. (2019) and Ganka, D. (2010)

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1. Introduction

The purpose of this chapter is to provide an overview of the study area and institution, research design and the method that was used to conduct this study. The content addressed included: the research method, research approach, data gathering and tools, the sampling method and sample selection technique, and data analysis techniques and tools.

## 3.2. Background of the Study Area

The Gurage Zone, located in the Central Ethiopia Regional state of Ethiopia, It has an area of 5932$Km^2$. It is the most diverse region in ethnic terms and with estimated population of 2,875,000. The main economic activity is agriculture, with a significant portion of the population engaged in smallholder farming and micro-enterprises. Despite its economic potential, the region faces challenges such as limited access to financial services, which hampers entrepreneurial activities and economic growth. Wolkite is the capital of the Gurage Zone, which is organized into seven woredas. It lies roughly 165 kilometers south west of Ethiopia's capital, Addis Ababa.

## 3.3. Research Design

This study applied both descriptive and explanatory research design. Descriptive type of research is helpful when a researcher want to look in to a phenomenon or a process in its natural contexts in order to get its overall picture instead of taking one or some of its aspects and manipulating it in a simulated or an artificial setting .this mated also used for the reason that it describes the existing facts and practice of different organization, as well as it is economically efficient (Abiyet al., 2009). This study design was collected data from six MFIs. To show the opinion of the manager in microfinance Institution and employed to comprehensively investigate the factors

affecting growth and sustainability of microfinance in the Gurage Zone.

### 3. 4. Research Approach

This study was used a mixed-methods research approach, combining both qualitative and quantitative research methods to provide a comprehensive understanding of the factors influencing the growth and sustainability of MFIs in the Gurage Zone.

Quantitative Research measure the impact of various socio-economic, institutional, regulatory, and geographical factors on MFI performance, and to assess the relationship between these factors and MFI sustainability. Qualitative Research explore the perspectives of MFI managers, officers, and other stakeholders on the challenges and opportunities for MFI growth in the region.

### 3.5. Data Collection Methods

Both primary and secondary data sources were utilized. Primary data were collected through semi-structured interviews, focus group discussions, and questionnaires administered to MFI managers and other staffs. Secondary data were gathered from existing literature, official reports, and records from relevant governmental and non-governmental organizations. Primary Data were collected using structured questionnaires and interviews. Questionnaires were distributed to managers and officers of MFIs to gather quantitative data on factors like management practices, financial performance, market conditions, and sustainability challenges. Interviews were conducted with key informants (government officials, MFI founders, or experts) to provide qualitative insights on the factors influencing MFI growth and sustainability. Secondary Data: Data from official records, annual reports, and documents provided by the MFIs or regulatory bodies were used to supplement the primary data and help triangulate findings.

## 3.6. Types of Data

Quantitative data were collected through a structured questionnaire survey administered to a representative sample of households in the Gurage Zone. The questionnaire gathered information on various socio-economic variables, including age, gender, education, occupation, income, household size, land ownership, and access to other financial services. Additionally, secondary data on demographic, economic, and social indicators for the Gurage Zone were collected from government sources, CSA, and academic institutions. The collected secondary data can be used

to: Contextualize the study, Support descriptive analysis, Develop explanatory models and justification

To gain deeper insights into the perceptions and experiences of key stakeholders, qualitative data were collected through in-depth interviews and focus group discussions. In-depth interviews were conducted with a purposive sample of microfinance community leaders, clients and MFI institution experts. These interviews explored their perspectives on the factors influencing microfinance demand, as well as the barriers and challenges they faced in accessing and utilizing microfinance services. Focus group discussions were conducted with microfinance clients to elicit group dynamics and shared perspectives on microfinance demand factors.

### 3.7. Target Populations

The target population for this study comprises the branches of Microfinance Institutions (MFIs) within Emdeber City, Agena City, and Wolkite City, including their management, officers and other staff. The study focuses on three active microfinance institutions in the Gurage Zone: Metemamen, Meikilit, and Omo Microfinance, which provide services to the poor in the region. In these nine branches there are 120 employes including managers.

## 3.7.1. Sampling Techniques

The researcher used simple random sampling to select 92 respondents, including managers and officers from each of the three selected microfinance institutions. The workers, managers, and officers of the institutions were selected to respond to prepared questionnaires. Simple random sampling was used to ensure a representative selection of field officers within the study area. Additionally, MFIs experts, managers, and officers and clients of the institutions were selected for interviews and asked to respond to prepared questionnaires. Simple random sampling was used to ensure a representative selection of field officers within the study area.

### 3.7.2. Sample Size Determination

The following formulas by (Taro Yamane Formula, 1967) would be used to determine sample size:

$$n = \frac{N}{1 + Ne^2}$$

$$n = \frac{120}{1+120*(0.05)^2} = 92$$

Where: n = required sample size

N = total population size

e = margin of error (for a 5% margin of error, e=0.05)

The Taro Yamane formula is simple to use and provides a quick way to calculate sample size, especially for finite populations. In this case, if you have 120 MFIs and want a 5% margin of error, the recommended sample size is 92.

Table 3. 1 Sample size

| Branch | Wolkite | Agena | Emidibre | Precent | Sample size |
|---|---|---|---|---|---|
| Omo | 18 | 10 | 10 | 41.3% | 38 |
| Metamemen | 11 | 10 | 10 | 33.7% | 31 |
| Meikilit | 11 | 5 | 7 | 25% | 23 |
| **Total** | 40 | 25 | 27 | 100% | 92 |

Source: Own survey 2025

### 3.7.3. Model Specification

The dependent variable of the study is growth and sustainability of MFIs. In order to fulfill objectives of this study the following functional form would be used. OLS regression could be used to estimate the relationship between independent variables with dependent variable (growth and sustainability). The OLS estimator is constant when the Gauss-Markov assumptions (OLS assumptions or assumptions of the CLRM) are meet. The OLS estimator requires that in explanatory variables when there is no perfect multicollinearity. Furthermore, OLS is optimum in the class of linear unbiased estimators when the errors are homoscedastic and serially uncorrelated. Under these conditions, the method of OLS provides minimum-variance and mean-unbiased estimation when the errors have finite variances. Under the additional statement that the errors be normally distributed.

$$Yt = f(X) \ldots\ldots\ldots\

$$Yt = \beta 0 + \beta 1Xt + ut \ldots\ldots\ldots\

and the research process. Results should be presented accurately, and any potential conflicts of interest should be disclosed to avoid bias.

# CHAPTER FOUR

# Data Presentation, Analysis and Interpretation

## 4.1. Descriptive Results

### 4.1.1. Socio-Economic and Demographic characteristics of Respondents

The section emphasizes that socio-economic and demographic structure of the respondents. In this study 92 questioners were distributed, for managers and officers. So, this section clearly discusses that all 92 respondents; minimum, average and maximum values.

**Table 4. 1 Socio-economic and demographic characteristics of the respondents**

| Variables | Category | Freq. | Percent | Cum. |
|---|---|---|---|---|
| Age | <25 | 9 | 9.78 | 9.78 |
| | 26-35 | 18 | 19.57 | 29.35 |
| | 36-45 | 32 | 34.78 | 64.13 |
| | 46-55 | 25 | 27.17 | 91.30 |
| | >56 | 8 | 8.70 | 100.00 |
| Total | | 92 | 100.00 | |
| Gender | Male | 54 | 58.70 | 58.70 |
| | Female | 38 | 41.30 | 100.00 |
| | | 92 | 100.00 | |
| Marital Status | Unmarried | 15 | 16.30 | 16.30 |
| | Married | 68 | 73.91 | 90.22 |
| | Divorced | 6 | 6.52 | 96.74 |
| | Widowed | 3 | 3.26 | 100.00 |

| | | | | |
|---|---|---|---|---|
| Total | | 92 | 100.00 | |
| Education | High School | 15 | 16.30 | 16.30 |
| | Diploma | 16 | 17.39 | 33.70 |
| | 1st Degree | 47 | 51.09 | 84.78 |
| | Masters & Above | 14 | 15.22 | 100.00 |
| Total | | 92 | 100.00 | |
| Name of MFIs | Omo | 38 | 41.30 | 41.30 |
| | Metamemen | 31 | 33.70 | 75.00 |
| | Meikilit | 23 | 25.00 | 100.00 |
| **Total** | | 92 | 100.00 | |

*Source: Own Survey, 2025*

From the table 4.1 result age Less than or equal to 25 years (9.78%), This group makes up a small portion of the respondents, suggesting that younger individuals are less likely to be involved with or have access to microfinance institutions in this region. Age 26-35 years (19.57%): A moderate percentage of individuals are in this age group, indicating that young adults are somewhat involved in microfinance, possibly starting their own businesses or seeking financial support. Age 36-45 years (34.78%): This is the largest group, suggesting that individuals in their middle adulthood are most engaged with microfinance institutions. This age range is typically associated with financial stability, entrepreneurship, and family responsibilities, which could explain the higher levels of involvement. Age 46-55 years (27.17%): A considerable portion of the respondents are in this age group, showing that microfinance institutions in the Gurage Zone cater to a broad age range. Middle-aged individuals may be seeking additional funding for business expansion or other financial needs. Greater or equal to 56 years (8.70%): This group represents a smaller segment of the population, suggesting that older individuals are less likely to engage with microfinance institutions, perhaps due to retirement, lower financial needs, or other life priorities.

From the table 4.1 gender of the respondents, males are (58.7%) A majority of the respondents are males, showing a higher level of male participation in microfinance activities, and Females are (41.3%) Although slightly lower, a significant proportion of women are also involved with MFIs. This reflects growing female participation in economic activities and the role of women in business development. MFIs in the Gurage Zone serve both men and women, but there might be room to increase the representation of female staffs and encouraging female entrepreneurship could further drive the sustainability and growth of MFIs in the Zone.

Marital status of the respondents unmarried is (16.3%) small proportion of respondents, which could indicate that unmarried individuals might not yet have significant financial obligations or family-related financial needs that would drive them to microfinance institutions. Married (73.91%) the majority of respondents are married, suggesting that family responsibilities, such as providing for children or managing household expenses, are significant drivers for seeking financial assistance through MFIs. The high proportion of married individuals in the sample suggests that microfinance institutions are crucial for families, particularly those seeking financial support for household ventures. MFIs may want to tailor their offerings to meet the needs of families, such as providing joint loans or support for family businesses. Relatively small group of individuals (6.52%) are divorced. This group may have different financial needs, such as re-establishing financial independence or supporting children post-divorce. The smallest group, indicating that widows might face specific financial challenges but are a minority in the sample which is (3.26%).

From the table 4.1 result high school (16.30%) A small group has only completed high school, which could indicate limited financial literacy or fewer entrepreneurial opportunities. These individuals might benefit from financial education programs in addition to financial services. Diploma (17.39%): Slightly more respondents have a diploma, which suggests that some individuals have vocational skills that might support small business ventures or self-employment.

BA/BSc (51.09%): The majority of respondents (51.09%) have completed a first degree, suggesting a higher level of education. This group is likely to have greater financial literacy and entrepreneurial potential, which aligns with the need for more complex financial services like business loans, microcredit, or asset financing. The significant portion of respondents with a first degree or higher implies that education plays an important role in the adoption of microfinance services. MFIs may need to provide more tailored services for educated individuals, such as funding for business ventures or professional development. Masters & Above (15.22%): A smaller group has a master's degree or higher, which may indicate that this group is less reliant or essential for management level on microfinance services, possibly due to better access to traditional banking or other financial resources. The result in line with Girma, A., & Dube, A. (2015) The study might support the idea that educated individuals are better equipped to manage loans effectively, make informed business decisions, and thus contribute to the growth and sustainability of MFIs.

Omo (41.3%) the most popular microfinance institution, suggesting that Omo has a strong presence and offers services that meet the needs of a large portion of the population in Gurage Zone. Metamemen (33.7%)**:** Metamemen is also a key player in the Gurage zone, with a significant percentage of respondents using its services. This shows that while Omo is the largest MFI, Metamemen is still a major competitor. Meikilit (25 %)**:** Meikilit is the smallest of the three MFIs in terms of client base. This may reflect less brand recognition, fewer service offerings, or less geographical reach compared to the other two.

Omo and Metamemen are the primary MFIs in the zone, and any strategies aimed at improving the growth and sustainability of MFIs should focus on strengthening the offerings and reach of these institutions. Meikilit may need to expand its services or improve accessibility to compete more effectively.

**Table 4. 2 Work Experience of Respondents**

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| Experience | 92 | 12.59783 | 5.357668 | 2 | 22 |

*Source: Own Survey, 2025*

From table 4.2 result, on average, in Gurage zone MFI officers and managers have about 12.6 years of experience. This suggests that most of the individuals in this dataset have been working in their roles for a significant period, which could imply they are quite skilled and knowledgeable in the microfinance sector. This level of experience might suggest they have been with the institution for many years or have worked across multiple positions within the field.

In this study area the experience ranges from as low as 2 years to as high as 22 years. This shows there is a wide variation in experience levels among the officers and managers. Some may be relatively new to the role, while others have extensive experience. This could lead to a diverse set of perspectives, strategies, and management styles within the MFIs, benefiting the organization with both fresh ideas and seasoned knowledge.

The standard deviation of 5.36 years tells us that while the average experience is around 12.6 years, there is considerable variability in the individual experience levels. A higher standard deviation indicates that there are both individuals with much more and much less experience compared to the mean. This suggests the organization could have a mix of more senior managers and younger staff, which may result in varying approaches to decision-making and leadership.

The broad range of experience levels, MFI officers and managers are likely to bring a variety of viewpoints and expertise to the organization. Senior staff might provide strategic insights based on years of field knowledge, while newer employees could introduce innovative ideas or a fresh outlook on managing operations. Other studies positively in line with this studies was Mlelwa, J. A. (2022) found that diversity in employee experience, along with other factors like education and specialization, positively contributed to the bank's performance. The research emphasized that employees with varied backgrounds bring different skills and insights, enhancing the institution's overall effectiveness. Similarly, Njoroge, B. M. (2022), a microfinance institution, revealed that workforce diversity, including differences in educational backgrounds and experience levels, influenced employee performance positively.

### 4.2. Institutional Determinants

**Table 4. 3 Governance Management**

| Variables | Category | Freq. | Percent | Cum. |
|---|---|---|---|---|
| Governance structure | Very Ineffective | 9 | 9.78 | 9.78 |
| | In effective | 13 | 14.13 | 23.91 |
| | No Change | 7 | 7.61 | 31.52 |
| | Effective | 48 | 52.17 | 83.70 |
| | Very Effective | 15 | 16.30 | 100.00 |
| Total | | 92 | 100.00 | |
| Review strategic goals | Monthly | 10 | 10.87 | 10.87 |
| | Quarterly | 39 | 42.39 | 53.26 |
| | Annually | 41 | 44.57 | 97.83 |
| | Never | 2 | 2.17 | 100.00 |
| | | 92 | 100.00 | |
| Clearly defined mission and vision of institution | Yes | 68 | 73.91 | 73.91 |
| | No | 24 | 26.09 | 100.00 |
| Total | | 92 | 100.00 | |
| How does the income level of the target population influence their decision to access microfinance services | Low income levels encourage to access | 48 | 52.17 | 52.17 |
| | Moderate income levels encourage to access | 20 | 21.74 | 73.91 |
| | High income levels lead to less reliance | 15 | 16.30 | 90.22 |

| | | | | |
|---|---|---|---|---|
| | Income level has no significant impact | 9 | 9.78 | 100.00 |
| Total | | 92 | 100.00 | |

*Source: Own Survey, 2025*

The analysis provides an interpretation of the table's data regarding governance structure, strategic goal review practices, and clarity of mission and vision in MFIs within the Gurage zone. A significant portion of respondents (68.47%) perceive the governance structure of MFIs in the Gurage zone as either "effective" (52.17%) or "very effective" (16.30%). Only 23.91% of respondents report that the governance is "ineffective" (14.13%) or "very ineffective" (9.78%). This indicates that, overall, there is a positive perception of governance structures within the MFIs in the study area. Overall, this positive governance structure suggests that the MFIs in the Gurage zone might be benefiting from robust leadership, accountability, and decision-making processes, which are essential for long-term success. The studies Morduch (1999), Johnson (2004) and Poudel (2017) suggest that strong governance is vital for the success of MFIs. Effective governance structures can lead to better oversight, improved decision-making, and increased financial sustainability. The positive governance structure in the Gurage zone aligns with these findings.

The majority of the MFIs (86.93%) in the Gurage zone engage in periodic reviews of their strategic goals, with 44.57% reviewing goals annually and 42.39% doing so quarterly. The relatively small percentage (10.87%) who review goals monthly suggests that while there is periodic reflection and assessment of goals, the frequency of reviews could be improved. Only 2.17% of MFIs do not review their strategic goals, which is a very positive sign for institutional performance. While quarterly and annual reviews are common, increasing the frequency of reviews could further improve the MFI’s agility and responsiveness to challenges in the microfinance sector. The studies Khavul (2010) and Gonzalez (2012) were positively support this result, quarterly and annual strategic reviews are essential for MFIs to align their financial performance with their social objectives.

A majority (73.91%) of respondents report that MFIs in the Gurage zone have a clearly defined mission and vision. This suggests that these institutions have a strong sense of purpose and direction, which is essential for aligning their activities with their social and financial goals.

However, nearly 26% of institutions lack clarity in their mission and vision, which can lead to fragmented efforts and potentially lower organizational effectiveness. Although a large majority of MFIs in the Gurage zone have a well-defined mission and vision, the 26% without it suggests an area of concern. Institutions that lack these guiding principles may struggle with strategic direction, leadership alignment, and decision-making, which can hinder both operational effectiveness and stakeholder trust.

According to table the table 4.3 result Low Income Levels Encourages to Access MFIs (48 respondents, 52.17%). The largest group of respondents (52.17%) believes that low-income levels encourage individuals to access microfinance services. This could be because low-income individuals often lack access to traditional financial services like bank loans. Microfinance institutions (MFIs) provide a critical source of funding for small businesses, personal needs, or emergency expenses, especially for people who do not have access to formal banking. MFIs can design small loans with low-interest rates and flexible repayment terms to meet the specific needs of low-income groups.

A smaller proportion (21.74%) of respondents believes that moderate-income levels also encourage individuals to access microfinance services. Moderate-income individuals may not have the financial resources or access to larger loans, but they might need small loans to improve their businesses, invest in education, or cover other needs that cannot be met by their current income. Microfinance offers them a way to bridge the financial gap.Moderate-income individuals can be an important target group for MFIs. MFIs could focus on offering personal loans or small business loans tailored to meet their needs.

A smaller proportion (16.30%) of respondents believes that high-income levels lead to less reliance on microfinance services. High-income individuals are generally more likely to have access to traditional financial services like bank loans, credit cards, or other financial instruments, which typically offer lower interest rates and larger loan amounts than microfinance loans. Therefore, MFIs may not focus on targeting high-income individuals, as they are less likely to need small loans for productive use or personal needs.

From this result (9.78%) of the respondents believes that income level does not significantly impact the decision to access microfinance services. This group believes that income level may not be the only determining factor when deciding whether to access microfinance services. MFIs

could potentially attract clients from all income brackets by offering tailored financial products and emphasizing customer service and flexibility in loan terms.

### 4.3. Financial Management

Financial Management refers to the process of planning, organizing, directing, and controlling financial activities such as procurement and utilization of funds within an organization. It involves a variety of functions, including budgeting, forecasting, financial analysis, and risk management, all aimed at ensuring the organization's financial health and achieving its goals. Effective financial management is essential for the sustainability of any business or organization. It helps to ensure optimal performance and growth (Ehrhardt, M. C et al., 2013).

**Table 4. 4 Financial sustainability and management**

| Variables | Category | Freq. | Percent | Cum. |
|---|---|---|---|---|
| financial sustainability MFIs | Unsustainable | 23 | 25.00 | 25.00 |
| | Neutral | 22 | 23.91 | 48.91 |
| | Sustainable | 47 | 51.09 | 100.00 |
| Total | | 92 | 100.00 | |
| source of funding for your MFIs | Grants | 29 | 31.52 | 31.52 |
| | Loans | 27 | 29.35 | 60.87 |
| | Client | 27 | 29.35 | 90.22 |
| | Deposits | 9 | 9.78 | 100.00 |
| Total | | 92 | 100.00 | |
| risk management framework in place | Yes | 64 | 69.57 | 69.57 |
| | No | 28 | 30.43 | 100.00 |
| Total | | 92 | 100.00 | |

***Source**: Own survey, 2025*

Table 4.4 shows that the distribution of MFIs in terms of their financial sustainability. Unsustainable (25%) MFIs are classified as unsustainable. This suggests that these MFIs are facing financial difficulties and may not be able to continue their operations in the long term without significant intervention or changes in their financial practices. Neutral (23.91%) MFIs are considered neutral in terms of sustainability, indicating that their financial situation is neither good nor bad. These MFIs might be stable for the time being but do not have a strong enough

financial position to be considered entirely sustainable. Sustainable (51.09%) MFIs are considered sustainable, showing that they have healthy financial practices, possibly including profitability, liquidity, and effective management. These MFIs are likely to be able to continue operating in the long term and expand their services without facing major financial setbacks. A majority (51.09%) of MFIs are financially sustainable, which is a positive indicator of their long-term viability. However, nearly 25% of the institutions are unsustainable, which highlights a need for improvement in financial management or strategic interventions in those institutions.

Sources of funding for MFIs are Grants, Loans, Deposits and Loans. Grants (31.52%) MFIs rely on grants as a primary source of funding. Grants are often provided by government bodies, international organizations, or NGOs, and they can help MFIs meet initial capital needs. However, dependence on grants may limit long-term sustainability since grants are often time-bound and might not always be available. Loans (29.35%) MFIs are funded through loans, which indicates that these MFIs may have some access to credit and debt financing. While loans can provide immediate capital, they also carry repayment obligations, which could strain the financial sustainability of these MFIs if not managed properly. Clients (29.35%) MFIs rely on client deposits or services. This reflects a more sustainable model as it shows that these MFIs are engaging with clients and using their funds to support operations, which is often a stable source of capital. Deposits (9.78%): Only 9 MFIs rely on deposits as their source of funding. Deposits generally represent a stable and long-term funding source but can also create challenges in terms of liquidity management and regulatory requirements. The distribution of funding sources reflects a mixed approach. While grants and loans are commonly used (with 60.87% of MFIs using these sources), client deposits and other services contribute to a more sustainable financial model. A potential risk is the over-reliance on loans or grants, which can be unstable in the long run.

The table 4.4 also indicates the presence of a risk management framework: Yes (69.57%) MFIs have a risk management framework in place, which is a positive indicator of proactive financial management. A risk management framework helps identify, assess, and mitigate financial, operational, and market risks, ensuring better stability. No (30.43%) MFIs do not have a risk management framework, which is concerning. Without a structured approach to managing risks, these MFIs may be exposed to financial volatility, poor decision-making, or unanticipated

financial setbacks. A majority (69.57%) of MFIs have a risk management framework, which is essential for long-term stability and sustainability. However, nearly 30% of MFIs are not addressing risk proactively, potentially putting their financial health at risk.

## 4.4. Operational Efficiency

**Table 4. 5 Efficiency of loan**

| Variables | Category | Freq. | Percent | Cum. |
|---|---|---|---|---|
| Loan disbursement process | In efficient | 28 | 30.43 | 30.43 |
| | Neutral | 21 | 22.83 | 53.26 |
| | Efficient | 43 | 46.74 | 100.00 |
| Total | | 92 | 100.00 | |
| Operational challenges MFIs | High operational costs | 27 | 29.35 | 29.35 |
| | Ineffective management practices | 20 | 21.74 | 51.09 |
| | Lack of skilled personnel | 22 | 23.91 | 75.00 |
| | Poor technology infrastructure | 23 | 25.00 | 100.00 |
| Total | | 92 | 100.00 | |
| To what extent does the financial health (profitability and loan repayment rates) of the MFIs impact its long-term sustainability | Poor financial health significantly reduce | 16 | 17.39 | 17.39 |
| | Strong financial health contributes | 32 | 34.78 | 52.17 |
| | Moderate financial health moderately sustainable | 37 | 40.22 | 92.39 |
| | Financial health does not significantly | 7 | 7.61 | 100.00 |
| Total | | 92 | 100.00 | |

*Source: Own survey, 2025*

The table 4.5 provides insight into the operational efficiency of Microfinance Institutions (MFIs) in terms of loan disbursement processes and operational challenges. Inefficient (30.43%) MFIs report that their loan disbursement process is inefficient. This suggests that a significant portion of MFIs are facing challenges in delivering loans to their clients in a timely or effective manner, which can hinder the accessibility of financial services and damage the reputation of the institution. Neutral (22.83%) MFIs have a neutral assessment of their loan disbursement process. These MFIs may not see significant issues, but they also do not have a clear view of the efficiency of their process. There may be room for improvement or optimization, but they are not currently experiencing major difficulties.

Efficient (46.74%) MFIs have an efficient loan disbursement process, meaning that a large proportion of institutions are able to disburse loans in an effective and timely manner. Efficient loan processing is key to client satisfaction and financial inclusion, contributing positively to the institution's operational performance. Loan disbursement is a crucial function for MFIs, and inefficiencies in this area can lead to delays, dissatisfaction, and lost opportunities. The data suggests that there is potential for operational improvements, particularly in the institutions that find their processes inefficient.

The table 4.5 outlines the main operational challenges experienced by MFIs**:** High Operational Costs (29.35%) MFIs cite high operational costs as a significant challenge. High costs can reduce profitability and affect the financial sustainability of the institution. This could include expenses related to staffing, infrastructure, or other overheads. Ineffective Management Practices (21.74%) MFIs report ineffective management practices as a challenge. Poor management can lead to inefficiencies, decision-making delays, and a lack of strategic direction, ultimately impacting the operational success of the institution.

Lack of Skilled Personnel (23.91%) MFIs face challenges due to a lack of skilled personnel. A workforce that lacks the necessary expertise can hinder efficiency, especially in critical areas like customer service, loan assessment, and risk management. Poor Technology Infrastructure (25.00%) MFIs struggle with poor technology infrastructure, which can impede operational processes like loan processing, record keeping, and communication. This inefficiency in technology could slow down services and affect the overall client experience.

From the table 4.5 result poor financial health significantly reduces sustainability, 16 respondents (17.39%) agree with this statement. This suggests that a significant portion of respondents believe that poor financial health, such as low profitability and high loan defaults, negatively affects the long-term sustainability of MFIs.

Strong financial health contributes to sustainability, 32 respondents (34.78%) agree with this statement. This means that a slightly more than one-third of respondents believe that strong financial health, characterized by high profitability and good loan repayment rates, is a key contributor to the sustainability of MFIs. It implies that when an MFI is financially stable, it is better equipped to weather financial crises and expand its outreach.

Moderate financial health is moderately sustainable, 37 respondents (40.22%) agree. The largest group, suggesting that a significant portion of people believe that MFIs with moderate financial health can still remain sustainable in the long run, though perhaps not as resilient as those with strong financial health.

Financial health does not significantly impact sustainability, 7 respondents (7.61%) agree with the notion that financial health impacts sustainability. These individuals believe that factors other than financial health might play a more significant role in the sustainability of MFIs.

***Table 4. 6*** **Training provided to staff on operational and strategic topics**

| How do you rate the level of training provided to staff on operational and strategic plan | level | Freq. | Percent | Cum. |
|---|---|---|---|---|
| | Low | 16 | 17.39 | 17.39 |
| | Moderate | 51 | 55.43 | 72.83 |
| | High | 25 | 27.17 | 100.00 |
| | Total | 92 | 100.00 | |

*Source: Own survey 2025*

Table 4.6, result shows training provided to Staff on Operational and Strategic Topics, A small portion (16 respondents) of the sample feels that staff training on operational and strategic topics is insufficient, for some MFIs in the Gurage Zone, there may be a lack of investment in staff

capacity-building in areas such as loan management, customer service, strategic planning, and financial management. This could be a significant concern because without proper training, staff might struggle to manage day-to-day operations effectively. The largest group of respondents (51) believes that training for staff is moderate. This indicates that while some training is provided, it may not be as comprehensive or consistent as needed. Moderately trained staff may have the necessary skills to perform basic tasks, but they might not fully understand the MFI's broader strategic goals or have the depth of knowledge needed to handle more complex challenges. It also suggests that MFIs are somewhat aware of the importance of staff training.

A smaller portion of respondents (25) perceives that staff training is high. From this the MFIs have a strong commitment to employee development, offering in-depth training programs that cover both operational and strategic aspects. High-quality training would enable staff to perform their roles effectively, improve overall service delivery, and contribute to the institution's long-term growth and sustainability. From this researcher understand the majority of MFIs in the Gurage Zone provide moderate training, there is a need to prioritize and increase the quality of these training programs. Staff training on operational and strategic topics.

### 4.5. Determinants Regulatory Environment

The regulatory environment in Microfinance Institutions (MFIs) is crucial to ensure the stability, sustainability, and transparency of financial institutions, while protecting clients, particularly those from low-income backgrounds. Several determinants influence this regulatory environment. These can be broadly classified into institutional, legal, regulatory and external environmental factors.

**Table 4. 7 Regulatory Factors**

| Variables | Category | Freq. | Percent | Cum. |
|---|---|---|---|---|
| Regulations to growth | Yes | 63 | 68.48 | 68.48 |
| | No | 29 | 31.52 | 100.00 |
| Total | | 92 | 100.00 | |
| Describe the regulatory environment for MFIs in your region | Unfavorable | 18 | 19.57 | 19.57 |
| | Neutral | 15 | 16.30 | 35.87 |
| | Favorable | 59 | 64.13 | 100.00 |
| Total | | 92 | 100.00 | |
| Regulatory challenges does your MFI encounter | Compliance costs | 46 | 50.00 | 50.00 |
| | Inconsistent regulations | 22 | 23.91 | 73.91 |
| | Lack of government support | 13 | 14.13 | 88.04 |
| | Regulatory reporting requirements | 11 | 11.96 | 100.00 |
| Total | | 92 | 100.00 | |
| How do government policies on interest rates and credit limits influence the operations of microfinance institutions in the Gurage Zone | Strict policies on interest rates and credit | 30 | 32.61 | 32.61 |
| | Moderate policies lead to balanced grow | 31 | 33.70 | 66.30 |
| | Flexible policies encourage increased o | 23 | 25.00 | 91.30 |
| | no significantly impact MFI operations | 8 | 8.70 | 100.00 |
| Total | | 92 | 100.00 | |
| How do the licensing and | Stringent licensing limit the | 33 | 35.87 | 35.87 |

| | | | | |
|---|---|---|---|---|
| regulatory oversight processes affect the ability of MFIs to expand in the Gurage Zone | expansion | | | |
| | Moderate licensing allow some growth | 24 | 26.09 | 61.96 |
| | Lenient licensing encourage rapid expansion | 28 | 30.43 | 92.39 |
| | Licensing do not affect MFI expansion | 7 | 7.61 | 100.00 |
| Total | | 92 | 100.00 | |
| To what extent do client protection regulations influence the trust of MFIs in the Gurage Zone | Strict client protection enhance trust | 58 | 63.04 | 63.04 |
| | Moderate client protection have a moderate impact | 19 | 20.65 | 83.70 |
| | Relaxed client protection do not affect | 9 | 9.78 | 93.48 |
| | Client protection have no significant impact | 6 | 6.52 | 100.00 |
| Total | | 92 | 100.00 | |

*Source: Own Survey, 2025*

From the table 4.6 result, a majority of respondents (68.48%) agree that regulations positively impact the growth of MFIs. This suggests that there is recognition within the MFI community in Gurage Zone that regulatory frameworks, when designed and implemented effectively, provide a stable environment conducive to growth. Regulations likely help in promoting trust and ensuring the sustainability of MFIs, which are critical in the microfinance sector, especially for the low-income populations served by these institutions. Other studies Mavhiki et al. (2020), positively in line with these result, which in emphases that a clear and favorable regulations promote growth in MFIs by ensuring that they adhere to standards that reduce operational risks and build credibility.

The table 4.6 result shows that a majority (64.13%) of respondents describe the regulatory environment as favorable. This is a positive outlook on the regulatory framework for MFIs in the Gurage Zone, indicating that most MFIs feel supported by the existing regulations. Only 19.57% view the environment as unfavorable, which suggests that while there are some areas for improvement, the overall regulatory landscape is relatively positive for MFIs in the region. A smaller portion of respondents (16.30%) maintain a neutral stance, possibly indicating uncertainty or a lack of strong opinions about the regulations. The observed that regulatory frameworks that balance strictness and flexibility foster growth in MFIs by providing clear guidelines without being overly restrictive. This seems to align with the finding that most

respondents in the Gurage Zone perceive the regulatory environment as favorable. Tadesse (2022) positively support this study.

The most significant regulatory challenge faced by MFIs is compliance costs, with 50% of respondents identifying it as an issue. This indicates that many MFIs in the Gurage Zone find the costs associated with meeting regulatory requirements to be burdensome. These costs might include legal, accounting, and reporting fees, as well as the expenses of adhering to capital adequacy or liquidity requirements. For small MFIs in particular, these costs can significantly affect profitability and long-term sustainability. The findings on compliance costs align with research by Sarpong et al. (2021), which found that high compliance costs are a major challenge for MFIs, especially in developing economies.

Inconsistent regulations (23.91%) are also a key challenge, which suggests that MFIs are dealing with regulatory uncertainty or discrepancies in the application of regulations across different towns or regions. Inconsistent enforcement of regulations can create operational difficulties, especially if MFIs have to deal with different requirements in different parts of the zone.

Lack of government support (14.13%) was seen as a challenge by a smaller portion of respondents. This could mean that some MFIs feel there is insufficient governmental backing in terms of financial assistance, policy advocacy, or infrastructure support. Regulatory reporting requirements (11.96%) were less frequently highlighted as a major challenge, but these requirements could still be a source of stress for smaller MFIs that lack the resources to comply efficiently.

From the above table 4.6 result trict policies on interest rates and credit limits (30 respondents, 32.61%): A significant proportion of respondents (about 32.61%) believes that strict policies on interest rates and credit limits have a notable impact on MFIs. These strict policies could be limiting the flexibility of MFIs in adjusting their interest rates based on operational costs, risks, or market conditions. While this may protect clients from excessively high-interest rates, it may also reduce the financial sustainability of MFIs by limiting their ability to price for risk adequately, or by preventing them from covering operational expenses.

The largest group of respondents (33.70%) feels that moderate policies help foster balanced growth. These policies provide MFIs with some flexibility in managing interest rates and credit limits, enabling them to better balance the needs of clients and their financial health. Moderate

policies are seen as ideal for encouraging growth and ensuring that MFIs can continue to expand their operations while still adhering to regulatory standards.

Approximately 25% of respondents believe that flexible policies are conducive to increased operations. Under flexible regulations, MFIs have greater freedom to set interest rates and credit limits, allowing them to adjust to market demands more quickly. This flexibility can lead to rapid expansion, as MFIs can extend more loans to clients and offer terms that might better align with client needs. A small minority of respondents (8.7%) feels that government policies on interest rates and credit limits have no significant impact on MFI operations. For this group, the focus may be on market dynamics or institutional strategies rather than regulatory frameworks.

Licensing and regulatory oversight according to 4.6 a significant number of respondents (35.87%) feel that stringent licensing regulations limit the ability of MFIs to expand. Stringent licensing requirements, such as high capital thresholds or stringent operational criteria, can create barriers for new entrants or restrict the expansion of existing institutions. These barriers might limit the availability of microfinance services in underserved areas.

About 26% of respondents believe that moderate licensing regulations allow for some growth. This suggests that MFIs prefer a middle-ground approach to licensing, where they can comply with regulatory requirements without stifling their ability to expand. Moderate regulations may encourage more players to enter the microfinance market while still ensuring that institutions operate responsibly.

Approximately 30% of respondents feel that lenient licensing regulations encourage rapid expansion. These regulations likely provide fewer barriers to entry and allow MFIs to scale quickly to meet demand. Lenient licensing might attract more microfinance institutions and foster competition, which could benefit clients by increasing access to financial services. A small minority of respondents (7.61%) believes that the licensing process has no significant impact on MFI expansion. For them, institutional capacity and demand might be the main factors driving expansion, rather than regulatory policies.

From the table 4.6 result client protection is the major factor, due this majority of respondents (63.04%) agree that strict client protection regulations significantly enhance trust in MFIs. Client protection regulations, such as transparent lending practices, fair dispute resolution, and the protection of borrowers' rights, help build strong relationships between MFIs and their clients.

Trust is crucial for the long-term success of MFIs, as it directly influences repayment rates, client loyalty, and overall institutional stability.

About 20% of respondents feel that moderate client protection regulations have a moderate impact on trust. This suggests that some MFIs may operate with adequate client protection mechanisms that don't require overly stringent regulations, but still ensure basic protections for clients. Moderate protections can still help build trust, but they may not be as effective as strict regulations in ensuring long-term stability and fostering client relationships. A small group of respondents (9.78%) believes that relaxed client protection regulations do not have a significant impact on trust. While client protection regulations are important, this group suggests that MFIs can still gain trust without stringent regulations, perhaps due to more personalized or community-based lending practices. A very small minority of respondents (6.52%) feel that client protection regulations have no significant impact on trust. This indicates that some individuals might perceive other factors as more influential in building trust, such as the quality of service, interest rates, or the reputation of the MFI.

**Table 4. 8 Market Conditions for MFIs**

| ***Variables*** | ***Category*** | ***Freq.*** | ***Percent*** | ***Cum.*** |
|---|---|---|---|---|
| How do you perceive the level of competition in the microfinance sector | Low | 24 | 26.09 | 26.09 |
| | Medium | 45 | 48.91 | 75.00 |
| | High | 23 | 25.00 | 100.00 |
| **Total** | | 92 | 100.00 | |
| What is the current demand for microfinance services in your area | Low | 24 | 26.09 | 26.09 |
| | Medium | 30 | 32.61 | 58.70 |
| | High | 38 | 41.30 | 100.00 |
| **Total** | | 92 | 100.00 | |
| What strategies does your MFI employ to remain competitive | Diversifying product offerings | 41 | 44.57 | 44.57 |
| | improving customer service | 27 | 29.35 | 73.91 |
| | Lowering interest rates | 15 | 16.30 | 90.22 |
| | technology advancement | 9 | 9.78 | 100.00 |
| **Total** | | 92 | 100.00 | |

**Source:** Own survey, 2025

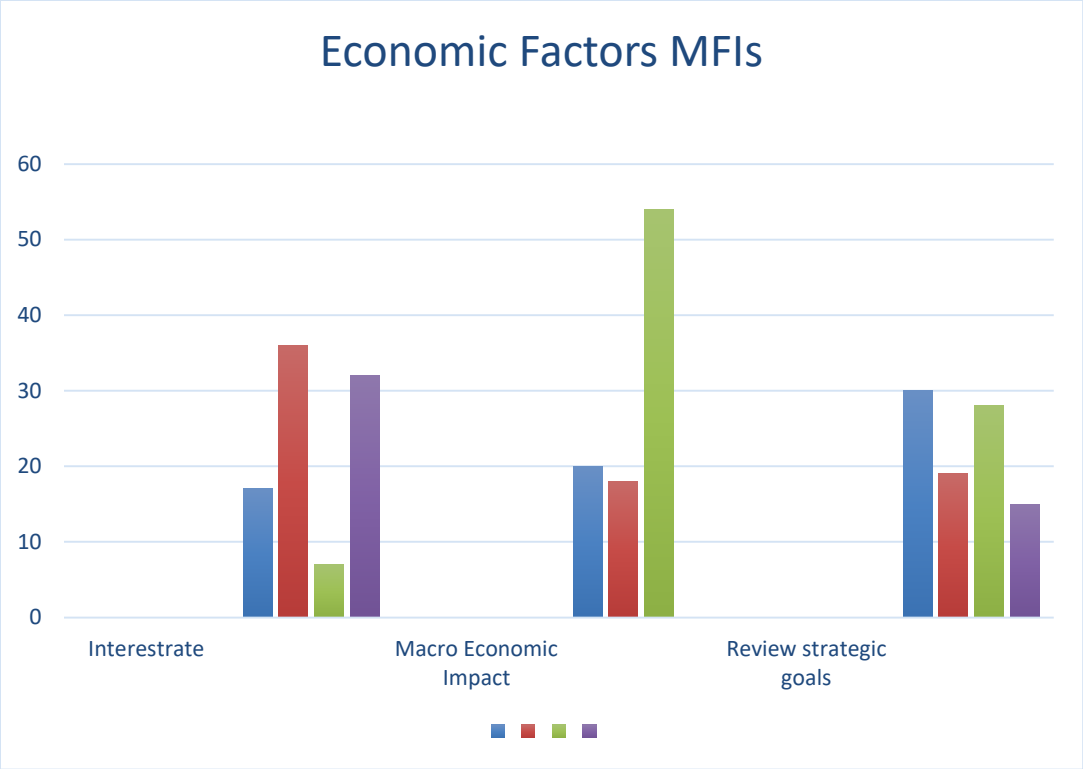
From the table 4.7 result the majority (48.91%) of respondents perceive competition in the sector as medium. This suggests that while there is competition, it might not be overwhelming or

excessively aggressive. A significant portion (25%) feels that the competition is high, indicating that a quarter of the participants believe the sector is highly competitive. This could imply that some players are offering strong services, making it challenging for others to thrive. About 26.09% believe competition is low, suggesting that a portion of microfinance institutions (MFIs) might face less competitive pressure, possibly in regions with fewer players or unique niches.

A significant portion (41.30%) of respondents says that the demand for microfinance services is high. Especially Omo microfinance institutions have great demand in the Gurage zone. This suggests a growing need for financial services in the Gurage Zone, which could be due to increasing entrepreneurship, to purchase agricultural input, community development initiatives, or limited access to traditional banking services. The medium demand category (32.61%) further supports the idea of a moderately growing or stable demand for microfinance services in the area. The low demand responses (26.09%) indicate that some MFIs may be operating in areas with limited customer needs or where financial services are already well-established.

From this table result the most common strategy is diversifying product offerings (44.57%). MFIs are broadening their range of services perhaps offering loans, savings, insurance to cater to a wider range of customers and address various needs. Improving customer service (29.35%) is the second most popular strategy. This reflects the importance of customer retention and satisfaction, especially in a moderately competitive environment where personal relationships and service quality can distinguish one MFI from another. Lowering interest rates (16.30%) is employed by fewer MFIs. While this strategy can attract price-sensitive customers, it might not be sustainable for all institutions, particularly if interest rate reductions undermine profitability. MFIs reduce interest rates to remain competitive, comply with regulations, fulfill their social mission, or reflect improved efficiency and access to lower-cost funding. Technology advancement (9.78%) is the least used strategy. This might be due to the cost and infrastructure challenges associated with implementing technology solutions, or it could indicate that many MFIs in the area are still in the process of adopting digital tools.

**Figure 4. 1 Economic impacts of MFIs**




**Source:** Own survey, 2025

Figure 4.2. Result shows that the largest group of MFIs (36 responses, or 40.91%) charge interest rates in the 10% - 15% range. This is a fairly common range for MFIs, as it strikes a balance between offering affordable loans to customers and maintaining profitability for the institutions. (36.36%) of the respondents says over 15%, which could suggest that these institutions are in more competitive or high-risk markets, where the higher interest rate helps cover the costs of doing business. High-interest rates can also reflect an attempt to compensate for higher operational costs or to ensure profitability when servicing riskier customers. Fewer MFIs (7 responses, or 7.95%) charge less than 5%, which could be due to a focus on extremely low-income borrowers or subsidized loans in areas where competition or risk is lower. Lower rates could be part of a strategic move to attract a large number of customers or to foster community goodwill. (19.32%) of the respondents says interest rates between 5% and 10%, indicating a moderate approach, possibly targeting a broad middle-income group or aiming for a balance between competitiveness and sustainability. 61.36% of the respondents believe that macroeconomic conditions have a negative impact on their MFIs. This suggests that factors like inflation, un employment, currency devaluation, or interest rate fluctuations may be harming the

business environment for MFIs. 18 responses (20.45**%)** feel that macroeconomic conditions have no effect, indicating that a portion of MFIs either operates in a relatively stable macroeconomic environment or has developed strategies to mitigate external shocks. 20 responses (22.73%) believe that macroeconomic conditions are having a positive impact. This might be the case for MFIs operating in areas where inflation drives demand for small loans or where favorable economic policies are in place.

An assess MFIs macroeconomic conditions (34.09%) of respondents says monthly. This frequency suggests that many MFIs are closely monitoring economic conditions to make timely adjustments to their operations, pricing, and strategies. This is likely a response to the volatile nature of the macroeconomic environment, particularly if inflation or currency fluctuations are significant. (31.82%) of the respondent says assess macroeconomic conditions quarterly, which indicates a slightly less frequent but still proactive approach to monitoring external factors. Quarterly assessments suggest that some MFIs may be able to forecast and plan for changes with less urgency, possibly due to the stability of their operating environment or business models. (21.59%) of respondent says assessments annually, which may be indicative of a more stable or predictable macroeconomic environment, or a less proactive strategy in response to macroeconomic changes. (17.05%) of the respondents never assessing macroeconomic conditions. This could suggest that these MFIs may not view macroeconomic changes as crucial to their operations, or they might be smaller institutions with fewer resources dedicated to such analyses.

**Table 4. 9 Client Satisfaction**

| Variables | Category | Freq. | Percent | Cum. |
|---|---|---|---|---|
| How would you rate the social impact of your services on clients | Low | 28 | 30.43 | 30.43 |
| | Moderate | 49 | 53.26 | 83.70 |
| | High | 15 | 16.30 | 100.00 |
| **Total** | | 92 | 100.00 | |
| How would you rate satisfaction of your clients with the services provided | Dissatisfied | 21 | 22.83 | 22.83 |
| | Neutral | 14 | 15.22 | 38.04 |
| | Satisfied | 57 | 61.96 | 100.00 |

| | | | | |
|---|---|---|---|---|
| **Total** | | 92 | 100.00 | |

***Source:*** *Own Survey, 2025*

From the table 4.8 result 53.26% of respondents rate the social impact of their services as moderate, suggesting that, for the majority of MFIs, the social contribution of their services is somewhat visible but not overwhelmingly positive. A smaller portion (16.30%**)** believes the social impact is high, which may indicate that some MFIs are having a significantly positive influence on their clients' lives, perhaps through initiatives like community development, income generation, or access to essential financial services. 30.43% rate the social impact as low, suggesting that a notable proportion of MFIs may not be seeing substantial changes in their clients' social affairs, which could point to limitations in the services provided or challenges in reaching the most vulnerable populations.

From the table 4.8 result shows 61.96% of respondents says that clients are satisfied with the services provided. This is a strong indicator that most clients are content with the services offered by MFIs, suggesting that the MFIs are fulfilling a key need in the community, whether it's access to financial services or customer support. A smaller portion (22.83%**)** of respondents indicate that clients are dissatisfied with the services. This could reflect dissatisfaction with aspects like loan terms, customer service, or the range of available products. 15.22% of respondents indicate that clients are neutral, meaning they neither feel strongly positive nor negative about the services. This could imply that the services provided meet basic expectations but may not go above and beyond in terms of offering exceptional value.

## 4.6. OLS Estimation Result for Growth and Sustainability of MFIs

This econometric result is analyzed by multivariate linear regression mode. A total of 7 independent variables were considered in the econometric model. From those variables four of them were a significantly influence on the intensity of MFIs Growth and Sustainability. These variables were Operational challenges MFIs at 1%, Economic condition MFIs operation at 5%, Social affair of your client with officers at 10%, and Source of funding for your MFIs at 10% were a significant and the remaining variables were found to have no significant effect on the MFIs Growth and Sustainability.

**Table 4. 10 Econometric estimation of MFIs Growth and Sustainability**

| | Coef. | Robust Std. Err. | T | P>t |
|---|---|---|---|---|
| Interest rate | .4855628 | .3208712 | 1.51 | 0.134 |
| Operational challenges MFIs | 1.800691 | .2920677 | 6.17 | 0.000*** |
| Training | .4993004 | .5385738 | 0.93 | 0.357 |
| Source of funding for your MFIs | .6829358 | .376179 | 1.82 | 0.073* |
| Market factor (MFIs) competitive | .2347574 | .3021162 | 0.78 | 0.439 |
| Economic condition MFIs operation | .7565256 | .3539279 | 2.14 | 0.035** |
| Social affair of your client with officers | -.7863837 | .4417913 | -1.78 | 0.079* |
| _cons | .9176517 | 1.796117 | 0.51 | 0.611 |

*Source: Own survey, 2025*

Where ***, ** and * the level of significance at 1%, 5% and 10%

The above table 4.9 the explanatory variables predict the dependent variable. From the four significantly variable three of the positive impact and one (Social affair of your client with officers) negative impact on MFIs Growth and Sustainability.

The Operational challenges have a significant positive effect on MFIs growth and sustainability, with a p-value of 0.000 (indicating statistical significance at the 1% level). The positive coefficient suggests that increased operational challenges are associated with higher growth/sustainability in MFIs, which may reflect that MFIs which face more challenges may develop more robust strategies for growth. (M. G. Yaghoobi et al., 2015) positively in line with this findings.

The source of funding has a positive coefficient, indicating that alternative or diversified funding sources may promote MFI growth. While the result is statistically significant at the 10% level (p-value < 0.1), it is not as strong as at the 5% level. This suggests that funding sources may have some impact on MFI performance.

The economic condition variable is statistically significant at the 5% level, with a positive coefficient. This suggests that better economic conditions are associated with greater MFI growth and sustainability. The economic condition increased by one unit the MFIs sustainability and growth increased by 0.756 time on average. In other words, a more favorable economic

environment tends to benefit the performance of MFIs. This result positively in line with (P. G. Soler et al., 2018)

The social impact of clients with officers is negative, and the p-value of 0.079 suggests that this relationship is significant at the 10% level, but not at the 5% level. The negative coefficient implies that greater social interaction between clients and officers may be associated with lower MFI growth/sustainability. This may indicate that too much involvement or social interaction could potentially detract from efficiency or focus on business outcomes.

In econometric model estimating the growth and sustainability of Microfinance Institutions (MFIs**)**, several explanatory variables are statistically not significant, meaning they do not show a strong or reliable relationship with the dependent variable at conventional significance levels. Interest rates are often assumed to affect MFIs' sustainability, their effect here is not statistically significant. MFIs often operate in environments where interest rates are capped or regulated, muting their impact. Borrowers' decisions may depend more on accessibility and convenience rather than cost. The variation in interest rates across sampled institutions might not be large enough to detect significant effects. The quality, frequency, or relevance of training not being uniform or effective across MFIs. Training may not have immediate measurable effects on growth or sustainability. There could be measurement issues (general training vs. targeted, quantifiable skills development).The competition among MFIs might not be a strong direct determinant of sustainability. Many MFIs serve niche, underserved markets with limited overlap. Non-financial aspects (social mission, outreach) may outweigh competitive strategies in these sectors. Competition could have both positive and negative effects that cancel each other out statistically.

### 4.7. Diagnostic Tests

The most common issues when working with crosssectional data are multicollinearity and hetero scedasticity. Multicollinearity is where two or more independent variables are correlated with each other. The existence of multicollinearity might cause the estimated regression coefficients have the wrong sign. As to Gujarati, (2004) multicollinearity is a serious problem if the VIF of the variables is higher than 10. But as we can see there is no a variable with VIF exceeding 10. Therefore, we find nothing that multicollinearity is a serious problem in the model and the mean values of VIF for explanatory variables were 1.13. (**See** appendix 4)

Heteroscedasticity is where the variance of the error term is not constant. Heteroscedasticity is a

situation where the disturbance terms, do not have constant variance. Since the presence of heteroscedasticity would result in inconsistent estimators, the model was then estimated with STATA version 13 software and used robust standard error to eliminate heteroscedasticity problem.

Most correlations are weak or negligible, meaning there aren't strong linear relationships between most of these variables. The strongest correlation (in relative terms) is between sourceoffu~I and market3 (-0.3502) still only moderate. The correlation between variables related to economics and social impact tends to be weak or slightly negative. (**See** appendix 5)

## 4.8. Interview Result

### Client-Based Interview Questions

The most frequent responses indicated that community support, as well as availability of market opportunities, have the greatest impact on clients' ability to grow their businesses through microfinance. This suggests that clients in the Gurage Zone prioritize external factors—like strong community networks and access to markets. This reflects the importance of a supportive environment for business growth, especially in rural or semi-rural settings where community collaboration and market accessibility might be more critical than individual financial factors. Many microentrepreneurs in developing areas rely heavily on community networks for referrals, support, and shared resources. In addition, market opportunities directly affect the demand for goods or services, which influences business viability.

The most of the response was interest rates charged by the institution, indicating that clients are highly sensitive to the cost of borrowing. Flexible repayment schedules and diverse financial products were also seen as important, suggesting that clients appreciate institutions that offer tailored financial solutions. Interestingly, management and leadership received fewer votes, implying that clients might not prioritize the internal workings of the institution as much as they do the financial terms offered. High interest rates can create a heavy financial burden on microfinance clients, which is why it emerged as the most significant factor influencing the availability of services. Additionally, flexible repayment options help clients manage cash flow more effectively, especially for those with seasonal or fluctuating income.

Government restrictions on loan sizes or interest rates and regulations limiting the types of financial products available received the most responses, highlighting the constraints that regulatory frameworks place on both MFI operations and clients. These restrictions could limit access to appropriate loan products and flexibility in loan terms, which can hinder business growth and MFI sustainability.

**Officer-Based Interview Questions:**

Employment opportunities and the ability to access capital from other sources were the most respondent's responses, which suggests that MFIs see external factors like available job markets and access to capital beyond microfinance as critical for client success. These factors likely affect the ability of clients to repay loans and grow their businesses. Employment opportunities help increase disposable income and improve financial stability, which in turn benefits the repayment capacity of microfinance clients.

Financial health and liquidity emerged as the most important factor for MFI sustainability, reflecting the officers' understanding that the financial viability of the institution is paramount. For MFIs to remain sustainable in the long term, they must ensure financial health, which allows them to continue lending and managing operations effectively. Without a strong financial base, the institution cannot survive or expand, making this the most crucial factor for sustainability.

Complex licensing and registration procedures were most frequently mentioned, suggesting that regulatory burdens create significant barriers for MFIs attempting to expand. Interest rate regulations and loan repayment policies were also seen as constraints, but less critical compared to bureaucratic challenges.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1. SUMMARY

Microfinance institutions (MFIs) have emerged as critical catalysts for economic empowerment and poverty alleviation in developing countries. By providing financial services to underserved populations, MFIs have facilitated access to credit, savings, and insurance, empowering individuals and communities to invest in income-generating activities, improve livelihoods, and

build resilience.

The Role of Microfinance in Development Microfinance has emerged as a powerful tool for addressing poverty and promoting economic development. By providing access to financial services to low-income individuals and small businesses, MFIs have contributed to a range of development outcomes, including increased income generation, job creation, and improved livelihoods.

Ensuring financial sustainability is crucial for MFIs to maintain operations and expand services. Factors such as capital adequacy, operational efficiency, and effective financial management significantly influence their financial health.The main aim of this study was identif ying the determinants of growth and sustainability of microfinance institutions in Gurage Zone 2025 own survey.

The quantitative and qualitative research design and simple random sampling technique was employed. This study was used a mixed-methods research approach, combining both qualitative and quantitative research methods to provide a comprehensive understanding of the factors influencing the growth and sustainability of MFIs in the Gurage Zone. Descriptive and econometric methods were employed to analyze the data collected from a sample of 92 respondents using structured questionnaires.

The study used the OLS regression model for the determinants of sustainability and growth of MFIs. The necessary ordinary list square assumption were also employed to test the statistical reliability of regression results. The significant portion of respondents with a first degree or higher implies that education plays an important role in the adoption of microfinance services. MFIs may need to provide more tailored services for educated individuals, such as funding for business ventures or professional development.

Loan disbursement is a crucial function for MFIs, and inefficiencies in this area can lead to delays, dissatisfaction, and lost opportunities. The data suggests that there is potential for operational improvements, particularly in the institutions that find their processes inefficient.

From the finding, a majority of respondents (68.48%) agree that regulations positively impact the growth of MFIs. This suggests that there is recognition within the MFI community in Gurage Zone that regulatory frameworks, when designed and implemented effectively, provide a stable environment conducive to growth. Regulations likely help in promoting trust and ensuring the

sustainability of MFIs, which are critical in the microfinance sector, especially for the low-income populations served by these institutions.

From the OLS estimations Operational challenges MFIs, Economic condition, Social affair and Source of funding were significant variables. The Operational challenges have a significant positive effect on MFIs growth and sustainability at the 1% level of significance. The positive coefficient suggests that increased operational challenges are associated with higher growth/sustainability in MFIs, which may reflect that MFIs which face more challenges may develop more robust strategies for growth.

## 5.2.CONCLUSIONS

- Socio-economic factors such as income level, education, and gender significantly influence the demand for microfinance services. Low and moderate-income individuals, particularly women, are more likely to access microfinance to improve their livelihoods.
- Institutional factors including governance structure, strategic reviews, operational efficiency, and financial management are essential for the sustainability of MFIs. Most MFIs in Gurage Zone have effective governance structures and review strategies regularly, which positively influences their performance.
- Operational challenges like high costs, lack of skilled personnel, and inadequate technology hinder MFI growth. However, institutions with better financial management and defined risk management frameworks tend to perform more sustainably.
- Regulatory environment plays a critical role. Supportive policies help MFIs grow, while strict or poorly implemented regulations limit their reach and sustainability. The legal framework should be improved to enhance efficiency without compromising oversight.
- The OLS estimation results indicated that operational challenges, economic condition, and source of funding had a positive impact on MFI growth and sustainability, while social affairs had a negative and significant effect.

## 5.3.RECOMMENDATIONS

☞ MFIs in the Gurage Zone should tailor their services to address the specific needs of family-oriented, middle-aged clients while promoting gender inclusivity by encouraging female entrepreneurship and increasing female staff participation.

- ☞ MFIs in the Gurage Zone should continue to build on their strong governance and strategic review practices, perhaps increasing the frequency of goal assessments to remain agile.
- ☞ High-income individuals are less reliant on microfinance, MFIs should still consider offering tailored financial products to cater to a broader customer base and enhance overall inclusivity.
- ☞ MFIs should focus on improving the financial sustainability of unsustainable institutions by strengthening financial management practices and diversifying funding sources to reduce dependence on grants, loans and risk management.
- ☞ The operational challenges should be addressed through strategic investments in staff training, better management practices, and technology upgrades.
- ☞ MFIs should prioritize strengthening their financial health by enhancing profitability, reducing loan defaults, and focusing on cost management to ensure long-term sustainability and resilience in the face of financial challenges.
- ☞ MFIs should advocate for regulatory frameworks that balance strictness and flexibility, particularly in areas like interest rates, credit limits, and licensing. Reducing the financial burden of compliance through streamlined processes or government support could improve operational efficiency and sustainability
- ☞ MFIs should focus on diversifying their products to meet the various needs of clients in the region, particularly given the high demand for microfinance services. Strengthening customer service should be a priority to enhance client retention and differentiate institutions from competitors.
- ☞ MFIs in the Gurage Zone should continue to closely monitor macroeconomic conditions, especially given the high proportion that perceives negative impacts from macroeconomic factors.
- ☞ To improve client satisfaction, MFIs could focus on enhancing customer service, offering more flexible loan terms, and expanding their product range. Listening to client feedback more frequently and implementing changes based on their concerns could help increase the proportion of satisfied clients.
- ☞ MFIs should explore and secure alternative sources of funding to support their operations and expansion. A diversified funding base can reduce dependence on a single source, improving stability and growth potential.

- ☞ MFIs maintaining strong client relationships is important, MFIs should be cautious about excessive social engagement that may detract from business efficiency.

## 5.4. Suggestions for Future Study

- Future research could include other zones or regions in Ethiopia to compare the determinants of microfinance growth and sustainability across diverse socio-economic and geographic contexts. This would help in generalizing findings and identifying region-specific challenges and solutions.
- While this study focused on institutional and managerial inputs, further research could delve deeper into clients' lived experiences, repayment behaviors, and satisfaction with services. A client-focused qualitative study could uncover more nuanced barriers to access and usage.
- Future studies could compare MFIs with other financial service providers like Savings and Credit Cooperatives (SACCOs) or rural banks in terms of outreach, financial health, and social impact, especially in rural economies.
- With increasing digitization, examining the impact of mobile banking, fintech solutions, and digital credit platforms on the efficiency, outreach, and sustainability of MFIs would be valuable.
- Since microfinance often targets women, future research could explore in more detail how gender dynamics affect loan utilization, repayment behavior, empowerment, and institutional support.
- Develop or test comprehensive metrics or frameworks for measuring MFI sustainability, combining financial, social, and operational indicators in a standardized way.

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APPENDIX 1 QUESTIONER

**WOLKITE UNIVERSITY**

**SCHOOL OF POSTGRADUATE STUDIES**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF MANAGEMENT**

**MBA PROGRAM**

My name is Muna Habta, and I am a Masters student at Wolkite University, College of Business and Economics Department of management. I am currently doing my research focuses on "Factors Affecting the Growth and Sustainability of Microfinance Institutions in Gurage Zone*"*. To successfully complete this research, I kindly request your support by filling out this questionnaire with appropriate data. I hereby declare that the information provided in this questionnaire will be used solely for the purpose of this academic research. Participation in this survey is voluntary and all information you provided will be treated confidentially and used only for this research purpose alone.

Finally, I would like to express my heartfelt gratitude for your support and help in completing this survey questionnaire.

**Part -I. Background Information**

1. Name of the Microfinance Institution (MFI): _____
2. Year of establishment: _____
3. Total number of clients served: _____
4. Gender**:** Male ☐ Female ☐
5. Age Range in Years: <25 ☐ 26-35 ☐ 36-45 ☐ 46-55 ☐ >56 ☐
6. Marital Status**:** Unmarried ☐ Married ☐ Divorced ☐ Widowed ☐
7. Education Level: High School ☐ Diploma ☐ 1st Degree ☐ Masters & Above ☐
8. What position held in the Institution _____
9. Work experience in the MFI: _____

10. How does the income level of the target population influence their decision to access microfinance services?

    Low income levels encourage to access ☐

    Moderate income levels encourage to access ☐

High income levels lead to less reliance ☐

Income level has no significant impact on accessing ☐

**Part II: Institutional Determinants**

**a. Governance and Management**

1. How would you rate the effectiveness of your governance structure?

Very Ineffective ☐ In effective ☐ No Change ☐ Effective ☐ Very Effective ☐

2. Does your institution have a clearly defined mission and vision statement? Yes No
3. How often does your board review strategic goals?

Monthly ☐ Quarterly ☐ Annually ☐ Never ☐

4. How do you rate the level of training provided to staff on operational and strategic topics? ☐

Low ☐ Moderate ☐ High ☐

5. To what extent does the financial health (profitability and loan repayment rates) of the microfinance institution impact its long-term sustainability?

Poor financial health significantly reduces ☐

Strong financial health contributes positively ☐

Moderate financial health results in moderate sustainability ☐

Financial health does not significantly affect ☐

**b. Financial Management**

6. How would you assess your institution's financial sustainability?

   ☐ Unsustainable ☐ Neutral ☐ Sustainable

7. What is the primary source of funding for your MFI?

   Grants ☐ Loans ☐ Client deposits ☐ other ☐

8. Do you have a risk management framework in place? Yes ☐ No ☐

9. How would you rate the financial sustainability of your MFI?

   Very Low ☐ Low ☐ Moderate ☐ High ☐ Very High ☐

10. What challenges does your MFI face in securing funding? (Select all that apply)

    Lack of investor confidence ☐ High-interest rates ☐ Stringent lending ☐

    criteria Limited access to capital markets ☐ other (please specify)

**c. Operational Efficiency**

11. What is the total value of the loan portfolio currently managed by your institution? _____
12. How would you rate the efficiency of your loan disbursement process?

    In efficient ☐ Neutral ☐ Efficient ☐

13. What percentage of loans are repaid on time

    0-25% ☐ 26-50% ☐ 51-75% ☐ 76-100% ☐

14. What operational challenges does your MFI face? (Select all that

    apply) High operational costs ☐ Ineffective management ☐

    practices Lack of skilled personnel ☐ Poor technology ☐

    infrastructure

Other (please specify): _____

**Part III: External Determinants Regulatory Environment**

**a. Regulatory Environment**

15. How would you describe the regulatory environment for MFIs in your region?
Unfavorable ☐ Neutral ☐ Favorable ☐

16. What regulatory challenges does your MFI encounter? (Select all that apply) Compliance costs ☐ Inconsistent regulations ☐
Lack of government support ☐ Regulatory reporting ☐
requirements Other (please specify): _____

17. Are there specific regulations that you believe hinder your growth? Yes ☐ No ☐
If yes, please specify: _____

18. How do government policies on interest rates and credit limits influence the operations of microfinance institutions in the Gurage Zone?
Strict policies on interest rates and credit limits ☐
Moderate policies lead to balanced growth ☐
Flexible policies encourage increased operations ☐
Not have significantly impact MFI operations. ☐

19. How do the licensing and regulatory oversight processes affect the ability of MFIs to expand in the Gurage Zone?
Stringent licensing limit the expansion of MFIs. ☐
Moderate licensing allow some growth. ☐
Lenient licensing encourage rapid expansion. ☐
Licensing do not affect MFI expansion ☐

20. To what extent do client protection regulations influence the trust of MFIs in the Gurage Zone?
Strict client protection enhance trust ☐
Moderate client protection have a moderate impact ☐
Relaxed client protection do not affect trust ☐
Client protection have no significant effect on trust ☐

## b. Market Conditions for MFIs

20. How do you perceive the level of competition in the microfinance sector?

Low ☐ Medium ☐ High ☐

21. What is the current demand for microfinance services in your area?

Low ☐ Medium ☐ High ☐

22. What strategies does your MFI employ to remain competitive?

Diversifying product offerings ☐ improving customer service ☐

Lowering interest rates ☐ technology advancement ☐

## c. Economic Factors MFIs

23. How do macroeconomic conditions (e.g., inflation, unemployment) affect your institution?

Negatively ☐ No Effect ☐ Positively ☐

24. How frequently do you assess the economic conditions that could impact your operations? Monthly ☐ Quarterly ☐ Annually ☐ Never ☐

25. What is the approximate interest rate on loans provided by the institution?"

Less than 5% ☐ 5% - 10% ☐ 10% - 15% ☐ Over 15% ☐

### d. Client Satisfaction

26. How would you rate the social impact of your services on clients?

Low ☐ Moderate ☐ High ☐

27. How would you rate the impact of your MFI on clients' economic wellbeing?

Very Low ☐ Low ☐ Moderate ☐ High ☐ Very High ☐

28. How would you rate satisfaction of your clients with the services provided?

Dissatisfied ☐ Neutral ☐ Satisfied ☐

29. Do you conduct regular surveys to assess client satisfaction? Yes ☐ No ☐

APPENDIX 2 INTERVIEWS

## Part IV Interviews questions for Clients, Officers and MFIs experts

1. In your opinion, which socio-economic factor has had the greatest impact on your ability to grow your business through microfinance?
2. What do you believe most influences the continued availability of microfinance services to you?
3. From your experience, which regulatory factor has the most significant effect on your ability to access or expand your business using microfinance in the Gurage Zone?
4. In your view, which socio-economic factors most significantly influence the growth of microfinance clients in this region?
5. Which organizational factor do you consider most critical for the long-term sustainability of your microfinance institution?
6. What regulatory challenges do you find most limiting to the growth and sustainability of your institution in the Gurage Zone?

***Thank You for Your Cooperation's!***

# APPENDIX 3 OLS ESTIMATION

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. reg lloaninmillion ecomo3interest operationalchallengesMFIs training sourceoffundingforyourMFI market3 econom2 socialimpactofy
> ourserviceson
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| Source | SS | df | MS | | |
|---|---|---|---|---|---|
| Model | 585.412933 | 7 | 83.630419 | Number of obs | = 92 |
| Residual | 845.315328 | 84 | 10.0632777 | F( 7, 84) | = 8.31 |
| | | | | Prob > F | = 0.0000 |
| | | | | R-squared | = 0.4092 |
| | | | | Adj R-squared | = 0.3599 |
| Total | 1430.72826 | 91 | 15.7222886 | Root MSE | = 3.1723 |

| lloaninmillion | Coef. | Std. Err. | t | P>\|t\| | [95% Conf. | Interval] |
|---|---|---|---|---|---|---|
| ecomo3interest | .4855628 | .3829307 | 1.27 | 0.208 | -.275937 | 1.247063 |
| operationalchallengesMFIs | 1.800691 | .3013878 | 5.97 | 0.000 | 1.201348 | 2.400034 |
| training | .4993004 | .5222617 | 0.96 | 0.342 | -.5392743 | 1.537875 |
| sourceoffundingforyourMFI | .6829358 | .3696542 | 1.85 | 0.068 | -.0521621 | 1.418034 |
| market3 | .2347574 | .3571138 | 0.66 | 0.513 | -.4754025 | .9449173 |
| econom2 | .7565256 | .3336384 | 2.27 | 0.026 | .093049 | 1.420002 |
| socialimpactofyourserviceson | -.7863837 | .4334172 | -1.81 | 0.073 | -1.648281 | .075514 |
| _cons | .9176517 | 2.040038 | 0.45 | 0.654 | -3.139188 | 4.974492 |

```
. reg lloaninmillion ecomo3interest operationalchallengesMFIs training sourceoffundingforyourMFI market3 econom2 socialimpactofy
> ourserviceson, robust
```

Linear regression

| | |
|---|---|
| Number of obs | = 92 |
| F( 7, 84) | = 8.63 |
| Prob > F | = 0.0000 |
| R-squared | = 0.4092 |
| Root MSE | = 3.1723 |

| lloaninmillion | Coef. | Robust Std. Err. | t | P>\|t\| | [95% Conf. | Interval] |
|---|---|---|---|---|---|---|
| ecomo3interest | .4855628 | .3208712 | 1.51 | 0.134 | -.1525248 | 1.12365 |
| operationalchallengesMFIs | 1.800691 | .2920677 | 6.17 | 0.000 | 1.219882 | 2.3815 |
| training | .4993004 | .5385738 | 0.93 | 0.357 | -.5717127 | 1.570314 |
| sourceoffundingforyourMFI | .6829358 | .376179 | 1.82 | 0.073 | -.0651374 | 1.431009 |
| market3 | .2347574 | .3021162 | 0.78 | 0.439 | -.3660337 | .8355485 |
| econom2 | .7565256 | .3539279 | 2.14 | 0.035 | .0527012 | 1.46035 |
| socialimpactofyourserviceson | -.7863837 | .4417913 | -1.78 | 0.079 | -1.664934 | .0921667 |
| _cons | .9176517 | 1.796117 | 0.51 | 0.611 | -2.654123 | 4.489427 |

# Appendix 4 Multicollinearity Test

. vif

| Variable | VIF | 1/VIF |
|---|---|---|
| sourceoffu~I | 1.21 | 0.825465 |
| econom2 | 1.16 | 0.860367 |
| market3 | 1.16 | 0.864241 |
| ecomo3inte~t | 1.12 | 0.891394 |
| operationa~s | 1.11 | 0.902700 |
| training | 1.09 | 0.919617 |
| socialimpa~n | 1.08 | 0.921732 |
| Mean VIF | 1.13 | |

# Appendix 5 Correlation Analiysis

. corr ecomo3interest operationalchallengesMFIs training sourceoffundingforyourMFI market3 econom2 socialimpactofyourserviceson
(obs=92)

| | ecomo3~t | operat~s | training | source~I | market3 | econom2 | social~n |
|---|---|---|---|---|---|---|---|
| ecomo3inte~t | 1.0000 | | | | | | |
| operationa~s | 0.2115 | 1.0000 | | | | | |
| training | 0.0882 | 0.1281 | 1.0000 | | | | |
| sourceoffu~I | 0.0462 | 0.0943 | -0.0429 | 1.0000 | | | |
| market3 | 0.0130 | 0.0242 | -0.0366 | -0.3502 | 1.0000 | | |
| econom2 | -0.2469 | -0.1362 | 0.0330 | 0.1931 | -0.1465 | 1.0000 | |
| socialimpa~n | -0.0957 | 0.0653 | -0.1992 | -0.0199 | -0.0245 | 0.1198 | 1.0000 |