The Effect of Financial Management Practices on Financial Performance of Micro Finance Institutions: *A study on Microfinance Institutions Found in Jimma Zone*

A Thesis submitted to the school of graduate studies of Jimma University in partial fulfillment of the requirements for the award of the Degree of

Masters of science in Accounting and Finance (MSC)

By:

DANBOBI NOTE DIDO

JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

SCHOOL OF GRADUATE STUDIES

DEPARTMENT OF ACCOUNTING AND FINANCE

June 20, 2016

JIMMA, ETHIOPA

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Under the Guidance of

EshetuYadecha (PhD Candidate)

And

Tadele Tesfay (MSC)

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MSC PROGRAM

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DECLARATION

I hereby declare that this thesis entitled "the effect of financial management practices on financial performance of Micro finance institutions a case study on Micro finance institutions found in Jimma Zone" has been carried out by me under the guidance and supervision of EshetuYadecha (PhD candidate) and Tadele Tasfay (MSC). The thesis is original and has not been submitted for the award of any degree or diploma to any university or institutions.

Researchers'

Name: Danbobi Note Dido

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APPROVAL SHEET

The research paper entitles “the effect of financial management practices on financial performance of Micro finance institutions A case study on Micro finance institutions found in Jimma Zone” submitted to Jimma University to undertake a research in partial fulfillment of the requirement for the Degree of Master of Science (MSc) in Accounting and Finance and the study carried out by **Danbobi Note Dido** under our guidance and supervision

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CERTIFICATE

This is to certify that the thesis entitles "the effect of financial management practices on financial performance of Micro finance institutions A case study on Micro finance institutions found in Jimma Zone", submitted to Jimma University for the award of the degree of master of Accounting and finance and is a record of bona fide research work carried out by Mr. Danbobi Note Dido, under our guidance and supervision.

Therefore, we hereby declare that no part of this thesis has been submitted to any other university or institutions for the award of any degree or diploma.

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ABSTRACT

- *Micro finance institutions (MFIs) make important contributions to economic, political and social development of any country. The aim of this study was to find out the coverage of financial management practices employed by the MFIs and their effect on financial performance of MFIs. The specific objectives of this study were to evaluate effects of independent variables of cash management practices, Account Receivables practices, Budget management practices, Internal control, source of finance, Accounting information systems and financial reporting and analysis practices on financial performance of MFIs in Jimma Zone. The study used both primary and secondary data. Primary data were collected through questionnaires administered from MFIs employees and interview of branch managers. Secondary data were collected from yearly or quarterly published reports, journal of articles, AEMFI reports and other relevant official reports. A total of 66 samples were selected using judgmental sampling techniques. Descriptive and inferential statistics of chi-square test of independence (significance) were applied in the study. The findings indicated that the above independent variables have significant (positive) relation with financial performance of MFIs which is measured by ROA. Finally, the researcher recommended: as means to discharge responsibility and accountability and to show service giving efforts, operational efficiency and effectiveness to contribution to the development endeavor of the country, they should establish a well organized financial management practices, Board should monitor regularly the financial management system, and donors should give capacity building training and transfer funds as per the original plan for MFIs employees.*

Keywords: *Micro-finance institutions (MFIs); financial management practices, Jimma Zone, Ethiopia*

ACKNOWLEDGEMENTS

Next to God the completion of this work cannot go without acknowledging the contributions made by some few special people who devoted their time, means and intellectual abilities to make this study fruitful. First I would like to sincerely thank my advisor EshetuYadecha (PhD Candidate) and Co-Advisor Tadele Tesfay (MSC) for their constructive comments, valuable suggestions and good guidance. I equally thank them for their kindness and necessary encouragement. I would also like to thank and acknowledge the contributions of employees of Association of Ethiopian Microfinance Institutions (AEMFI) and MOFED for their invaluable help, during observation time, by providing me with all necessary information. Second I would like to thank Dr Arega Seyoum (Post graduate Coordinator at Jimma University), Dr Balako Gumi (Academic and Research V/President of Bule Hora University), Mr. Kora Tushune (Business and Development V/President of Jimma University), Ms. Bicu Mekonnin (My wife) and Mr. Tesfaye Tadele for their kind support and encouragement.

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ACSI- Amhara Credit and Saving Institutions Share Company

ADCSI -Addis Credit and Saving Institutions Share Company

AEMFI- Association Ethiopian Micro-Finance institution

AGE- Age of Micro Finance Institution

ARA- Accounting reporting and analysis

AVFS- African Village Financial Services

CGAP- Consultative Group to Assist the Poor

CLRM- Classical Linear Regression Model

EFE- Operational Efficiency

FSS- Financial Self-Sufficiency

GDP- Gross Domestic Product

GR- Gearing Ratio or Debt/Equity ratio

MDGs- Millennium Development Goals

MFIs- Micro Finance Institutions

NGOs- Non Governmental Organizations

ODA- Oromia Development Association

OCSSCO- Oromia Credit and Saving Share Company

OSS- Operational Self-Sufficiency

OSHO- Oromo Self Help Organization

PEACE- Poverty Eradication and Community Empowerment

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

In the world, poor people are not successful or get any incentives from official or formal financial institutions and in developed countries ignorance (leaving out ranges from) percentage is less than in developing and under developed countries (Mersha and Prof Prabhakara, 2012). Financial management is a set of behaviors in the areas of cash management, credit management, financial planning, investments, insurance, retirement and estate planning (Ibid).Financial management field is becoming mainly worried about the consumer behavior of young adults. According to Henry, Weber and Yarbrough, (2001) it has been argued that these individuals, who are beginning to make more complex financial decisions and are in the process of establishing financial management practices have grown up in a consumer culture and are accustomed to debt and easy availability of credit (Yenesaw, 2014).

In the past decade, authority of financial institutions gives attention to bring financial service for poor people in the world who are ignored from formal financial services (CGAP, 2012). In sub-Saharan Africa most population lack to access deposit and credit facilities and other services provided by formal institutions (Yenesaw, 2014). According to Yenesaw (2014) the major trouble for development is the lack of access to credit and where the most households face the challenges of collateral to secure a loan. They depend on both money lenders and informal sector when they borrow or denied access to credit. In the 20th century MFIs has been characterized by new products discoveries in the financial production. In this era because of capitalism the generation of new ideas is increased and micro finance is only one of them. There are many informal ways in which people use to borrow for credit and deposit money for unforeseen conditions but access to financial services considered as formal. Micro finance is not only considered as a means of financial aimed specific people but it understand also as a poverty reduction for society , women empowerment, economic development and employment creation (Ibid). Poverty reduction and strategy set as operational outline to transform international MDGs aimed in to nationwide action in Ethiopia. In Ethiopia micro finance involvement considered as one of the policy tool of the government and non-governmental organizations (NGOs) to increase output and productivity of rural and urban poor peoples, persuade adoption of technology, advance input supply, increase income, reduce poverty and achieve food security (Yenesaw as cited in Alemayehu, 2008).

In the past decades many micro finance institutions were established in Ethiopia to provide service or to serve the poor people so as to contribute in poverty reduction. OCSSCO is one of the MFIs that was established in August 1997 as per the commercial code of the country and proclamation No.40/1996 by five shareholders includes Oromia National Regional State(ONRS), Oromia Development Association (ODA), Oromo Self Help Organization(OSHO), Dinsho PLC and one natural person. It starts operational activities with head office in Addis Ababa and four branch offices namely Shashemenne, Hetosa, Kuyyu and Sinana-Dinshoin1997 (AEMFI, 2000). Harbu MFIs S.C Established in 2005 and is affiliated to facilitator for Change (NGO). Harbu MFI aims at boosting agricultural productivity and agricultural marketing by supporting value chain development and access to financial services. Eshet MFI was established in legal registered by the national bank of Ethiopia, according to proclamation No 40/1996. Based on commercial code of Ethiopia and proclamation No 40/1996 Eshet microfinance established in March 2000 E.C, a total number of branches are five (5). And with a total number of client 7119 out of which 2098 are urban and 5021 rural clients (AEMFI, 2015).

Financial management practices are put in to practice to maintain an institution on way towards productivity goals and success of its mission, and to diminish surprises along the way. Financial management practices encourage transparency, responsibility, competence, reduce risk of asset loss, and help to ensure the consistency of financial statements and conformity with rules and regulations. There are increasing calls for better financial management practices and report cards on them. However, there are factors which affect financial management practice of MIFs like political change, corruption, poor planning, poor leadership ability and poor governance (Yenesaw, 2014). Therefore, this study would try to analyze the effect of financial management practices on financial performance of Micro finance institutions the case of MFIs found in Jimma Zone.

1.2. Statement of the Problem

Financial management is an integral branch of the development process to attain the Millennium Development Goals. One of the goals of the Paris Declaration is to ensure greater reliance on public financial management systems (Weber, 2001 as cited in Yenesaw, 2014)

Public finance works with borrowers to use national systems where possible or financial management is one of the several useful areas of management, but it is the center to the victory of any commerce or financial institutions. Inefficient financial management practices, combined with the uncertainty of the business or financial institutions environment often led Business Enterprises or financial institutions to serious problems (Mersha and Prof Prabhakara**,** 2012). According to Kawame, (2010) careless financial management practices are the main cause of failure for business enterprises in Ghana. Consequently, a business organization's profitability could be damaged because of inadequate financial management and financial institutions have often failed because of lack of knowledge about efficient financial management practices.

According to Kilonzo Jennifer and M, Ouma Dennis, (2015) researchers have concentrated on examining, investigating and describing the behavior of Business Enterprises in practicing financial management but not on the MFIs. Their findings were mainly related to exploring and describing the behavior of business enterprises towards financial management practices and characteristics. Although they provided some descriptive and empirical evidence on financial management practices, it indicates that there are still some gaps in the literature which need to be address. First, one direction evidence, means most empirical evidences came from the developed economies such as the United States of America. Therefore, there is a lack of evidence from less developed countries like Ethiopia. Second, most previous researchers focus on investigating and describing financial management practices of business enterprises (McMahon, et al., 1993). There has not been adequate research on examining the effect of financial management practices on financial performance of MFIs. It is in opposition to this understanding that the present study aims to scrutinize the effect of financial management practices on financial performance of MFIs in selected MFIs. If politics of one country change, then the donors, lenders and borrowers policies are changed accordingly. Which mean if political change is full of strength in economically, socially and politically (leadership) the change is positive and the reverse is true.

For example, corruption, poor planning, copy of services and programs, poor leadership ability, poor governance are some factors which negatively affects civil society organization because of inefficient in financial management practices (Yenesaw, 2014). The reasons that initiate the researcher were that there was a lack of empirical evidence from less developed countries and absence of adequate studies on effect of financial management practices on financial performance of MFIs rather they examining and describing financial management practice on Business enterprises. In addition to these identifying and describing effect and interaction among financial management practices and MFIs financial performance was untouched yet by other researchers were the reasons that highly motivate the researcher to conduct this study.

To the best knowledge of the researchers, it appears that there have not been adequate studies made on this area, the effect of financial management practices on financial performance of MFIs a case study of MFIs found in Jimma Zone was what the researcher would be addressed. Therefore, the outcome of the research would help to fill the existed gap.

1.3. Hypotheses

H1 Cash management practices have significant effect on financial performance of MFIs in Jimma Zone

H2 Account Receivables management practices have significant effect on financial performance of MFIs in Jimma Zone

H3 Budget management practices have significant effect on financial performance of MFIs in Jimma Zone

H4 Internal Control practices have significant effect on financial performance of MFIs in Jimma Zone

H5 Source of finance has effect on financial performance of MFIs in Jimma Zone

H6 Accounting information systems practices have significant effect on financial performance of MFIs in Jimma Zone

H7 Financial reporting and analysis practices have significant effect on financial performance of MFIs in Jimma Zone

1.4. Objectives of the Study

1.4.1. General Objective

The general objective of the study is to assess the effect of financial management practices on financial performance of Micro finance institutions the case of micro finance institutions found in Jimma Zone and to suggest possible solution.

1.4.2. Specific Objectives

- ✓ To determine whether cash management practices have effect on financial performance of MFIs
- ✓ To determine whether Account receivables practices have effect on financial performance of MFIs
- ✓ To assess whether budget management practices have effect on financial performance of MFIs
- ✓ To determine whether internal control practices have effect on financial performance of MFIs
- ✓ To assess whether source of finance management practices have effect on financial performance of MFIs
- ✓ To assess whether Accounting information system practices have effect on financial performance of MFIs
- ✓ To determine whether financial reporting and analysis practices have effect on financial performance of MFIs

1.5. Significance of the Study

It is rare to find such adequate studies in Ethiopia. Therefore the study output will Provide evidence for users what and how it affects financial management practices on financial performance of MFIs in Ethiopia particularly Jimma Zone, benefits donors, managers and any other interested in the MFIs and it will helps them knowing what are the effect of financial management practices on financial performance of MFIs and take appropriate measurement. Government will be benefited from this paper by applying the output of the study based on its necessity, Policy makers and planers of program will use the study, because it can pave the way for them to have upgrade information and to examine the related issues by using this paper as secondary data and provide an insight for the MFIs to other researchers.

1.6. Scope and Limitation of the Study

The scope of this study was limited to the effect of financial management practices on financial performance of MFIs the case of MFIs found in Jimma Zone and would include independent variables like cash management, accounting receivables, budget management, internal control, source of finance, accounting information system and financial reporting and analysis Systems and financial performance of MFIs as dependent variable. There are only 3 MFIs operating in Jimma Zone and have 33 branches. In order to save cost and time the researcher would decide to take10 (48%) branches from OCSSC, 3(50%) branches from Harbu and 3(50%) branches from Eshet MFIs which found in Jimma Zone. Therefore, this paper was limited to analyze only16 branches from 3 MFIs. In relation to support the secondary data analysis collecting the perception of branch managers of MFIs is intended but accessing all these key informants is difficult. As a result of this the researcher would be collected perception of 16 managers from 16 branches. The financial constraint and the problem associated with the external environments forced the researcher to limit the sample size and the scope of the paper is some of the major limitations of the study.

1.7. Organization of the Thesis

This paper has five sections and has been organized as follows: The first section (chapter I) consist of an outline and overview of the thesis including background, statement of the problem, objective of the study, significance of the study, and scope and limitations of the study. The second section (chapter II) includes a conceptual overview of financial management practices. It discussed deeply the review of literature on the assessment of effect of financial management practices on financial performance and discussed the definition of financial management practices, and the elements of financial management practices in Ethiopia. The third section (chapter III) describes an outline and explanation of the research methodology employed in the study. This includes a research design, research methodology, target population and sampling methods used and method of data analysis and presentation. The forth section (chapter IV) deals with the results and discussions of the study. The last section (chapter five) summarizes the analysis; made conclusions and recommendations about where to be improved, and where future research can expand the assessment of the effect of financial management practices on financial performance of MFIs.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1. Over View of Financial Management Practices

Different scholars define financial management practice in different ways. For instance according to Kawame, (2010) financial management is the center of any business success and one of the several functional areas of management activities. Financial management focus on the prioritization in the public sector and use of limited resources on ensuring effective stewardship over public money and asset and on achieving value for money in meeting government objectives. Its forms are part of the aggregate operation of institution and relates to other functional disciplines in the institution (Ledgerwood, 1999).

However, there are many factors which affect financial management activities adversely. Avoiding or minimizing factors affecting financial management practice by construction of sustainable monetary institutions was consequently well thought-out by the regime as a first main concern for the microfinance built-up. A next one was to build an authentic countrywide microfinance industry. And, uniformly important, the aged tool of heading for credit delivery was integrated in the guideline enclose. The administration required MFIs to provide the countryside survival farmers, as they represented the huge mass of the country's underprivileged; microfinance had to take part in a significant function in the nationwide poverty diminution plan (Yenesaw, 2014).

The major purpose of rule and regulation of any financial institution is to make certain sound practices and constancy inside the financial scheme. Therefore, it is to keep the little depositors and continue self-assurance in the financial organism. In the holder of MFIs, the input aim is to endorse and keep the sustainability and constancy of the countryside financial scheme accordingly to make sure access by underprivileged countryside households to provide financial services. The additional main aim of rule and regulation of MFIs is to improve their admission to funds markets for leveraging profitable finances to develop their practices. The laws leading the founding and operations of MFIs in Ethiopia are frankly or ultimately based on these aims (Derk, et al., 2009).

2.2. Financial Management theory

Financial management practices are defined as the practice to be performed by the accounting officer, the chief financial officer and other manager in the areas of budgeting, supply chain management, movable property management and control (Ayene, et al., 2014). In MFIs financial management is given a low priority. This is often characterized by poor financial planning and monitoring systems. But NGOs operate in a rapidly changing and competitive world. If their organizations are to survive in this challenging environment, managers need to develop the necessary understanding and confidence to make full use of financial management tools (Ibid).

2.2.1. Elements of Financial Management

Although no one model of financial management hysterics every organization, the following components are essential to good financial management:

A) Planning looks ahead to forecast the future, such as rising budgets to cover up activities of a program or the whole organization for a year or a longer period.

B) Controlling establishes systems and procedures, checks and balances, to make sure that the financial resources of the organization are properly handled and that risks are managed.

C) Monitoring compares plans with actual performance to identify strengths and weaknesses in planning and implementation and adjust as necessary (Ayene, et al., 2014).Well organized financial management is a key to an institutional sustainability. It will have effect on decision making across the institution and as such should be integrated into all aspects of an institution's operations, from managing project budgets to gathering information for strategic decision-making. Nonprofit voluntary institution must practice sound financial management and comply with a diverse array of legal and regulatory requirements. It is essential that organization successfully manage their funding and financing sources to ensure the best and most efficient use of their financial resources.

2.2.2. Concept of Financial Management Practice

Components of financial management were identified as financial planning and control, financial accounting, financial analysis, management accounting, capital budgeting and working capital management by a study made in Malaysia by Mohd, (2010). Financial management practice is divided in to the five specific areas: Capital structure management, working capital management, financial reporting and analysis, capital budgeting and accounting information system (Mersha and Prof Prabhakara, 2012). Generally, it is possible to identify four major areas of financial management practices from the above and other related work:

1. Reporting and Analysis: these include the nature and purpose of financial records, bookkeeping, cost accounting, and use of computers in financial record keeping, the nature, frequency and purpose of financial reporting, auditing, analysis and interpretation of financial performance.

2. Working Capital Management: involves managing the level and financing of the firm's investment in current assets, which includes cash, marketable securities, accounts receivable and inventory.

3. Fixed asset Management: Unlike working capital decision, capital budgeting decision commits funds for a long term capital projects or fixed assets which have an effect on the company's strategic position.

4. Financial Planning and Control**:** includes financial objectives and targets, cost-volume-profit analysis, pricing, short term financial budgeting and control, and management of responsibility centers.

2.2.3. Factors Relevant to Financial Control Practices

The heart of financial management is the concept of financial control and financial controls help us to make sure that the finances of an association or institutions are well handled or not. In absence of financial control assets are at risk and funds may not be spending accordingly (Ayene, et al., 2014). For the purpose of financial control and accountability of MFIs, it is vital that an overall financial policy be put in place. The policy should include individual policies pertaining to the donors, income, budgeting, expenditure, travel, auditing, petty cash, assets, salaries, staff loans and the opening and operation of a bank account (Samuel, 2006).

2.2.4. Financial Control Practices

According to Mersha and Prof Prabhakara**,** (2012) active board officials can be the most important resource in the long-term financial health of non-profit institution. Non-profit institutions must get accounting expertise somehow, if they don't have strong skills in this area. Institutions should get someone on board with accounting skills to be the treasurer. An accountant should help set up the bookkeeping system, generate financial statements and do some financial analysis. The knowledge and understanding of basic accounting processes is required for the effectiveness of accounting to be guaranteed.

For effective financial control, the institution's staff and board members are required to be conversant and participate in the budgeting process that affects the line items or financial performance for which they will be held responsible. For non-profit making organizations planning and financial management are activities that unite, rather than dividing the organizations. Program planning is often viewed as the domain of the executive director, program director, and the board **(**Yenesaw, 2014).

2.2.5. Effects of internal and financial Controls Practices on financial performance

Internal control systems are all systems and procedures either financial or otherwise that are put in place as a result as to ensure the organization processes are run in an effective and efficient manner and to safeguard the assets of the organization. This includes procedures, processes, putting up security fences, and safe custody of resources, pre-numbering of receipts, policies and manuals. These are essential as they develop an environment of orderliness and guidance in operations of an organization leading to effectiveness in financial accounting, (Muriu, 210). According to the Institute of Chartered Accountants of England and Wales (ICAEW), "Internal control means not only internal check or internal audit, but the whole system of control, financial and otherwise, established by the management in order to carry on the business of the company in an orderly manner, safeguard its assets and secure as far as possible accuracy and reliability of its records (Muriu, 210).

2.2.6. Book keeping and Financial Control Practices

Unlike businesses that earn their income by selling goods or services, and unlike the government whose resources are provided by taxation, a non-profit organization (NPOs) does not own the resources it raises. NPOs are expected to be careful and effective managers of the resources entrusted to them by donors, sponsors and the state. Financial management systems need to be developed, no matter how simple and basic, and maintained by an organization's office bearers to ensure the appropriate use of resources (Mersha and Prof Prabhakara**,** 2012). A NPO does not own the resources it needs to fulfill its mission, but is allowed to use money and other gifts to achieve planned objectives. Those who release these resources have to be convinced that the work will be done according to plan, and with responsibility (Ayene et al., 2104). These calls for proper book keeping, financial statements and audit reports communicate.

2.2.7. Audits and Financial Control Practices and financial performance

An audit is a process for testing the accuracy and completeness of information presented in an organization's financial statements. In addition to the materials included in the audit report, the auditor often prepares a management letter or report to the board of directors.

This report cites areas on the organization's internal control system which the auditor evaluates as weakens. Many auditors provide year-end financial accounting services which are not part of the audit. These include preparing year-end financial based statements based on client's reports, depreciation schedules and accrual and other adjustments based on clients. This serve as an independent examination of the existing accounting systems to see whether it is effective and gives a true and fair view of an organization's state of affairs as at a particular period in time enhancing the effectiveness of financial accounting (Ayene et al., 2104).

2.2.7.1. Relationship between External and Internal Audits with MFIs

"*External audits are generally required of most MFIs, if not by the donor, then by local regulating bodies. External audits can be useful in verifying the reasonableness of financial statements, and add credibility to the transparency of your MFI. However, it is not the role of external auditors to maintain orderly set of financial records, or to be responsible for maintaining strong systems and preventing fraud. This is your responsibility – as the MFI.*

Internal audits can improve a MFIs financial and operating systems; their purpose is to determine whether stated policies and procedures are followed, report any findings to the contrary identify risks to the institution, and make recommendations to management to minimize those risks. An internal audit function in MFIs greatly strengthens internal control systems and also gives the external auditor confidence to rely on the financial statements."
(Basic Financial Management and Ratio Analysis for MFIs Toolkit, 2008)

2.3. Specific Areas of Financial Management

2.3.1. Effect of Working Capital Management on financial performance

In Jimma town the study was conducted by Mersha and Prof Prabhakara, (2012) found out that the way of working capital is managed will have a significant effect on the profitability of a MFIs. Padachi, (2006) investigated the affiliation between profitability measured by return on assets and working capital management by taking 58 firms in Mauritius using panel data analysis for the period 1998 -2003. The regression result showed that high investment in inventories and receivables is associated with low profitability.

Burns and Walker (2001) evaluate working capital management as a general. In their study of working capital policy among small manufacturing firms in U.S.A, the following points were considered; working capital policy, managing working capital components, including Cash, Receivables, Payables and Inventory management and interaction among working capital management practices and productivity devoid of clearly managing additional aspects of institutions efficiency.

According to the Padachi, (2006) the process of planning and controlling cash flows was considered as the cash management. It includes three basic components: cash forecasting practices, cash excess investment practices and cash control practices. Cooley and Pullen (1979) evaluate cash management practices of 122 little institutions occupied in petroleum marketing and reported that the majority of respondents had knowledgeable a cash excess. Mersha and Prof Prabhakara, (2012) studied about accounts receivable management practices, originated generally low values. Just about 95 percent of businesses that sold on credit tended to sell to everybody who was interested to buy. Only 30 percent of respondents subscribed to a usual credit reporting service. The majority of them had no credit checking rules and regulations, and lone 52 percent imposed a late-payment incriminate. Thirty-four percent of businesses had no official system for aging accounts receivable and the general standard of inventory management was poor. The study which the researcher discussed above was conducted on Small scale business enterprises found in Jimma zone, but this study was conducted on MFIs.

2.3.2. Effect of Capital budgeting management on financial performance

Capital budgeting decisions are serious to the success of any firm. Ayene et al., (2014) argued that capital budgeting decision is vital to a firm's financial well-being and are among the most important decisions that owners or managers of a firm must make. Their rationale for that belief is that capital budgeting decision often involves significant capital outlay to acquire fixed assets. Additionally, the acquisition of these assets often comes with long lasting and recurring financial obligation. Furthermore, efficient utilization and control and management of acquired fixed assets are also equally important. Appropriate acquisition process, proper record keeping , periodically evaluating the efficiency of the fixed asset, regular repair and maintenance and proper disposal of fixed assets will enhance the performance of firms.

Because of the lack of access to the public markets for funding smaller firms needs capital budgeting than larger counter parts and over the past number of decades Capital budgeting has attracted researchers. There were several surveys conducted by previous researchers concerning capital project selection techniques, and the results shows that around 58 percent of respondents used reimbursement period methods while only 4.1 percent working accounting rate of return technique (Andinet, 2013). Block's (1997) survey of 232 small businesses in the USA indicated reimbursement method leftovers the governing method of investment choice for small businesses, while huge corporations commonly incorporate reduced cash flow models in financial analysis of capital investment proposals (Andinet, 2013). This is not facts of a lack of complexity as much as it is a manifestation of financial pressures put on the small business owner by financial institutions. Reimbursement period was used to assess capital projects by 51 percent of respondents, whereas 30 percent reported use of some difference of accounting rate of return.

2.3.3. Effects of Accounting Information Systems on financial performance

As findings of many researchers studies indicate that large and small MFIs differ in terms of strategies they follow or practice. MFIs often place a value on autonomy, survival, stability or financial growth, while large MFIs model assume that MFIs objective is to maximize wealth of shareholders. Nayak and Greenfield, (1994) founds that micro-business owner-managers are not keeping sufficient records to aid them in their decision-making and an external auditor required by MFIs usually prepares the statutory accounts and provides management advice (Padachi, (2006).

Sophistication of accounting systems is correlated with size and age of the MFIs and level of uncertainty as there is no effective capital market for MFIs means always they are not worry about default risk or not sure about debtors (Kilonzo Jennifer M, Ouma Dennis**,** 2015). The allegation of these ideas can be that the MFIs monitor their cash position closely so as to maintain good relationship with clients as their debtors or borrowers. According to McMahon (1993), the more sophisticated financial reporting system is necessarily prepared to ensure that a MFI's economic resource is used effectively and efficiently. He also claims that there is a specific need in growing MFIs for the skills of financial analysis which will permit financial statements to be read and understood.

2.3.4. Effects of financial practices and source of finance on financial performance

The essential thing to survive and encourage good performance of any business is right of entry into finance. Management accounting information is associated with success and failure in SMEs depending upon how they are produced and utilized in their companies Holmes and Nicholls (1989). However, Horngren, (1995) argues that cost accounting or management accounting concepts and techniques are neutral instruments and it is not the cause of poor management but primarily symptoms since it may be used wisely or unwisely by managers of the firms (Nayak and Greenfield, 1994)

Kilonzo Jennifer M, Ouma Dennis**, (**2015) summarizes that the same rules and procedures established for external reporting (financial accounting) are likely also to be applied to internal reporting (management accounting) even some rules, referred to theory, are unsuitable for management accounting. Despite the fact, that external and internal reporting tend to employ the same rules, it does not mean that management accounting is compliant to financial accounting. The reason that most companies adopt the identical practices for both reporting information systems is that firms favor their internal profit to be reported constantly with external financial accounting necessities in order that they will be equivalent with outsiders‟ assessments of overall company performance and companies would like to be ensured that internal accounting system do not have any conflicts with external financial accounting requirements.

2.3.5. Efficiency in ARA Practice on financial performance

Tourna and Germanos, (2000) studied about the role of accounting information on business strategy formulation in Greece. The study found out that, the use of accounting information system helped owners or managers to design and implement a strategic plan that will enable their business profitable in the long run. Kieu, (2004) also found out that efficiency in accounting information system and financial reporting and analysis enhanced profitability. The efficiency of business organizations in this case was approximated by the on time and accurate recording and summarizing of business transactions, the frequency of preparing financial report and financial analysis, the degree of computerization of the accounting information system (kieu, 2004). In addition, different accounting and financial management books also confirm that good accounting; reporting and financial analysis practices enhance performance by helping decision makers design and implement wise and strategic decisions (Mersha and Prof Prabhakara**,** 2012).

Preparing reports devoid of bookkeeping alone is probably not to be essential in aiding decision making unless proper reports are prepared and analyzed to put together a meaning so as to help decision makers. D’Amboise and Gasse, (1980) studied the employ of financial statement analysis by small manufacturers in Quebec, Canada and found that small manufacturers in shoe and plastic industries officially undertook the analyses depend on financial statements and the result exposed those manufacturing firms managerial decisions were mainly based on the financial reports prepared.   When efforts were made to include the effect of other managerial practices and variations in business environments, no relation between use of entity ratios and sum earnings or aggregate to sales was set up (D'Amboise and Gasse, (1980).

Lack of a capital base which is a particular financial problem often suffers Small companies. Small businesses are frequently controlled by their owners and on hand capital is restricted to access to equity markets, and in the early stages of their accessibility owners find it difficult in building up income reserves if the owner-managers are to survive. Managers select the smallest risky and demanding source first when a firm is enforced to use external financing sources and issue external sources; debt issuance is preferred to new equity when it is necessary. Inadequately compiled records and accounts; low levels of technical and management skills; old-fashioned technologies; lack of professionalism and networking; lack of guarantee; lack of market outlets due to poor quality and non-standardized products; poor linkages and limited knowledge of business opportunities are among those problems which result external finance is more expensive than internal finance compared to their large counterparts.

2.3.6. Effect of Financial Planning on financial performance

Effect of Financial Planning: Companies typically prepare a wide array of plans and budgets. Some of which include sales plan, production plan, cost plan and expense budget and budgeted income statement and balance sheet. These budgets are very important to anticipate the future in advance. This will in turn help to minimize risks and because of the tradeoff between risk and return, profitability increases. Therefore, preparing detailed financial plan or budgets will have a positive effect on effectiveness of the MFIs (Kilonzo, Jennifer M, Ouma Dennis**,** 2015).

There have been a number of empirical studies conducted in other countries and examining or identifying types of financial reports produced by MFIs, the frequency of their preparation, and their perceived usefulness for management purposes. Broad reviews of this empirical evidence, and the findings of similar research conducted worldwide, up to the early 1990s are provided by McMahon & Holmes (1993). The big worry issue is the extent to which, if at all, improved financial practices come into view to pay-off in terms of improved business performances in the MFIs identified. For the growing MFIs, there do not appear to be any large associations between undertaking more comprehensive financial reporting and use of financial ratio analysis on the one hand and achieved rates of growth and financial performance on the other (D'Amboise and Gasse, (1980).

Financial performance: Kilonzo Jennifer M, Ouma Dennis**, (**2015) defined the financial performance as the company's ability to generate new income from their daily activities over a given period of time.

2.4. Review of Empirical Literature

According to different studies MFIs financial performance can be affected by a number determining factors. In the Kilonzo Jennifer M and Ouma Dennis, (2015) study they concludes that financial management practices (working capital management practices, investment practices, financial planning practices, accounting information systems and financial reporting and analysis practices) are major determinants of the growth in financial performance of MFIs. Micro finance Institutions (MFIs) play an important role in Ethiopian Economy.

Poor financial performance and which finally lead to failure of MFIs or any business is the result of inefficiencies in financial management. MFIs financial performance has adverse effects on the economy. Therefore, they need sound financial management practices among Ethiopian MFIs and the adoption of financial management practices afford opportunities for the business MFIs to respond to the various challenges within its operating environment. Thus MFIs should hold well-built financial management systems. Innovation is the key to the MFIs financial performance and attempt should be made to ensure MFIs financial performance are in front line of improvement for them to be competitive throughout development of financial management practices via ICT. MFIs financial performance should be encouraged to employ staff with the necessary requirement to match the financial performance of the MFIs. MFIs should also be encouraged to expand their activities and move from the traditional practice of not rendering service to the poor people's accordingly and should be advised to strengthen and put up policies regarding debtors on how to collect receivables, be able to know when to write off bad debts so as to reduce losses that accumulate as a result of none payment. Likewise, hard work should be put by MFIs owners to ensure that inventory management is improved through setting re-order levels both for minimum and maximum so that the institutions does not run out of stock as well as tie too much capital in stock which affects the working capital management. The ministries of finance and industrialization should provide a favorable platform for MFIs to access financing that can enable them to run their businesses at a reasonable cost of financing. This is necessary since access to bank loans was found to be difficult for MFIs and end up using only internally generated funds. The interest rates should be positive; correspondingly the necessities to accessing such funding should also be logical so as not to push MFIs away. Financial professionals should sensitize the MFIs owners on the importance of bookkeeping, financial reporting and analysis as well built proper books of analysis. 'Building capacity should be planned for MFIs owners to help them understand why they should maintain reorganized books so as to know their levels of performance on whether they are making profits or losses (Yenesaw, 2014).

According to (Kilonzo Jennifer M, Ouma Dennis**,** 2015), 'those financial practices are more inclusive in medium-sized concerns in assets value terms. Furthermore, the comprehensiveness of financial practices is statistically greater amongst respondents that performing strongly in sales revenues terms. There is further evidence that the comprehensiveness of financial practices is statistically greater in responding MFIs that have higher annual sales or profit revenues.

To evaluate the relationships between identified five financial practices and MFIs performance, correlation coefficients are calculated. The correlations coefficients prove that the MFIs who are having appropriate financial systems are performing well than who are not having proper financial systems. Then, the MFIs who are conducting financial audits are performing well than who are not conducting financial audits. Further the results found that the MFIs who are complying with financial practices are performing well than the MFIs, who are not complying with financial practices. The MFIs who are complying with future-oriented financial practices are performing well than MFIs, who are not (Ibid).

Finally, results shows that the MFIs who are analyzing their financial statements are performing well than MFIs who do not analyzing their financial statements. All correlation coefficients show significant positive correlations. Therefore there is an effect of financial practices upon MFIs performance in Sri Lanka'. To some extent it is similar in that as those MFIs financial performance affects any business as a whole in any country. Which means as the above researchers (different scholars) MFIs financial performance is highly correlated with working capital management, accounting information systems, Investment, Financial analyzing and Reporting and financial practice. However, the previous studies weakness is absence of political prediction and technological development with aspect of any business institutions in Ethiopia, particularly MFIs, which found in Jimma Zone. Their weaknesses are; one direction evidence and mostly focus on identifying and describing financial management practices. But the effect of financial management practice on financial performance of MFIs is the great issue that the researcher would address.

2.5. Determinants of Financial Performance of MFIs

The financial performance MFIs could be affected by a number of determining factors. In most literatures MFIs profitability always expressed as a function of internal and external determinants. AEMFI, (2015) also point out that the determinants of MFIs profitability can be divided into two specifically the Internal and External determinants. Internal determinants are management controllable and the external determinant, are exterior of the control of management. Empirical literatures in relations to determinants of MFIs financial performance are very limited. The previous studies done in the area highly depended up on theory of retail banking financial performance by assuming that MFIs also provide banking service to the poor.

2.5.1. MFIs-Specific Determinants (Internal)

The internal determinants of MFIs financial performance are that factors which are controlled by management and description for the inter-firm differences in profitability, given the external environment. In general, internal factors are under control of management and can be avoided by active management.

A. Profitability and Portfolio Quality

Portfolio quality is a measure of how well or how best the institution is able to protect total funds available for the MFI to use as loans to its clients against all forms of risks. An active economy and comparatively constant macroeconomic and political environment are said to offer an enabling environment to the success of the MFIs. The foregoing dynamism results in increased and rising demand for financial services. In a study of deposit-taking MFIs in Ethiopia, it was argued that, stable macroeconomic conditions and relatively low inflation support the profitability of MFIs. Against this backdrop, macroeconomic stability despite being important is not by itself a sufficient condition for the profitability and growth of MFIs. There exists an interesting scenario. On one hand, it is noted that there are poorly performing MFIs in countries with stable macroeconomic conditions. On the other hand, it is possible for MFIs to operate effectively even when the economy is not that stable. It is further asserted that regulatory environment affects growth, efficiency, productivity, and sustainability of MFIs.

The growth of outreach in MFIs in Ethiopia is noted to have positive implications on financial institutions. Some of the reasons include that, it enables the MFIs to reach large number of clients and attain sound effect on reducing poverty; reduce average operating cost of MFIs by reducing or eliminating losses, and not by increasing lending interest rates; improves financial and operational sustainability; helps MFIs to satisfy their clients' needs through various services; presents a better image of MFIs so as to attract loan capital from banks, donors, and social investors for their expansion; and enhances the borrowers' willingness to repay. It is also asserted that improving access to loan capital and developing efficient and effective systems for mobilizing savings are crucial for enhancing outreach and capitalization of MFIs. Moreover, the profitability and performance of MFIs is posited to mainly depend on their capacity. For this to be achieved there ought to be improvement in governance, human resource development, systems development, technology development, and mobilization of funds. A study on the problems that affect the growth of MFIs in Tanzania was conducted (Kieu, (2004). It was realized that the most important factors that inhibit the growth of MFIs include the educational levels of customers, lack of capital to lend to clients and staff related incentives, and skills development in a study of performance of MFIs in Tanzania (Ibid). It was established that commercial banks outperform traditional MFIs. In the same right, balanced score card was recommended on the grounds that it provides the potential to investigate the overall performance of MFIs from two dimensions, that is, financial and non-financial performance. Portfolio shows total funds available for the MFI to use as loans to its clients. Portfolio quality is a measure of how well or how best the institution is able to protect this portfolio against all forms of risks. The loan portfolio is by far an MFI's largest asset (Ibid) and, in addition, the quality of that asset and therefore, the risk it have for the institution can be relatively not easy to gauge. Portfolio quality is a serious region of performance analysis, since the largest source of risk for any financial institution resides in its loan portfolio. For microfinance institutions, whose loans are characteristically not backed by bankable collateral, the quality of the portfolio is absolutely vital (American Development Bank, 2003 cited in AEMFI, 2015) Portfolio quality is a vital area of analysis, since it is the largest source of risk for any financial institution. Therefore, as much as possible, MFI's must try to maintain the quality of their portfolios.

B. Capital to Asset Ratio

The capital to assets ratio is a simple measure of the solvency for any financial institutions. It used to assess MFI's ability to meet its obligations and absorb unexpected loss. For the regulated MFI's there is a minimum solvency requirement stipulated by the regulator. The determination of an acceptable capital to asset ratio level is generally based on a MFIs assessment of its expected losses as well as its financial strength and ability to absorb such losses. Expected losses should be covered through provisioning under the MFI's accounting policies. Thus, the ratio measures the amount of capital required to cover additional unexpected losses to ensure that the MFI is well capitalized for potential shocks .As a proxy for the MFIs capital, this study used the ratio of equity to assets. MFI with higher capital to asset ratios are considered relatively safer compared to institutions with lower ratios. Given that MFI with low capital ratios are also riskier in comparison with better capitalized financial institutions. According to CGAP, MFIs should be subject to even higher capital to asset ratio than banks in the light of risks and vulnerability of MFI loan portfolio. They further advise MFIs to maintain a ratio up to 20 percent with subsequent performance-based relaxation to 12-15percent. Ethiopian MFIs maintained an average capital to asset ratio of 36 percent. This is relatively higher thanks to the contribution of donor-equity to MFIs and the policy of the government which empts MFIs with social objectives (Amha and Kifle, 2015).

In this study, the performance of a bank is measured by its return on assets (ROA).The ROA, defined as net income divided by total assets, and reflects how well a bank's management is in using the bank's real investment resources to generate profits. Panel regression techniques are used to analyze the internal determinants as well as the external determinants and generalized least squares (GLS) estimation technique. And the result shows that Capital asset ratio has significant effect on bank profitability meaning the positive coefficient estimate for the ratio of equity to total assets (EQTA) indicates an efficient management of banks‟ capital structure.

According to Muriu, (2011) study that is determinants of profitability of MFIs, Based on a panel data set of 210 microfinance institutions Muriu conclude that capital adequacy has robust and significant positive association with MFI profitability. This is depicted by the relatively high coefficient of the equity to assets ratio across the specifications this effect remains so even after the inclusion of the external factors. Intuitively, this is an indication that well capitalized MFIs are more flexible in dealing with problems arising from unexpected losses and are confronted with a reduced cost of funding or lower external funding.

C. **Operational Efficiency**

Operational Efficiency is performance measure that shows how well MFIs is streamlining its operations and takes in to account the cost of the input and/or the price of output. Efficiency in expense management should ensure a more effective use of MFIs loan able resources, which may enhance MFIs profitability. Higher ratios of operating expenses to gross loan portfolio show a less efficient management. Operational efficiency in managing the operating expenses is another dimension for management quality. The performance of management is often expressed qualitatively through subjective evaluation of management systems, organizational discipline, control systems, quality of staff, and others (Yenesaw, 2014). By stating the fact, the researcher confirmed that the operational efficiency is inevitable to attract funds. Operating efficiency is proxies by operating expense ratio which is adjusted operating expense divided by adjusted average gross loan portfolio and concludes that Operating Expense Ratio, are statistically significant predictor variables in determining Return on Assets Ratio. In line with this idea Yenesaw, (2014) conclude that inefficiency in the management of operating expenses to significantly decrease MFI profitability.

D. Debt to Equity (Leverage) Ratio

The debt to equity ratio is the simplest and best- known measure of capital adequacy because it measures the overall leverage of MFIs. Traditionally MFIs have had low debt/equity ratios, because as NGOs their ability to borrow from commercial lenders was limited. The commercial lenders have comforts with regulated MFIs by lending up to 3-5 times of the equity of a MFI. In k2013the average debt-equity ratio of MFIs was 1.85. OMO's (4.33) and Sidama's (3.96) ratios were almost two times higher than proposed standard of 1.5 (Amha and Kifle, 2015). It is calculated by dividing total liability by total equity. Total debt includes everything the MFI owes to others, including deposits, borrowings, account payable and other liability accounts. The debt/equity ratio is the simplest and best-known measure of capital adequacy because it measures the overall leverage of the MFIs (Kieu, (2004)). The debt to equity ratio is a common measure used to assess MFIs leverage, or in other words the extent to which it relies on debt as a source of financing (Ibid). Microfinance institutions that employ higher debt in their capital structure are more profitable, and highly leveraged microfinance institutions are more profitable, (Muriu, 2011). Besides, a higher debt ratio can enhance the rate of return on equity capital during good economic times (Muriu, 2011). Moreover, it also appears that NGO type of microfinance institutions rely more on debt financing relative to other type of microfinance institutions, perhaps because many are not regulated to mobilize deposits. The significant correlation between performance and gearing ratio is an indication that perhaps more debt relative to equity is used to finance microfinance activities and that long term borrowings effect positively on profitability by accelerating MFIs growth than it would have been without debt financing (Ibid).

Implying that, more equity is used to finance business than debt. It indicates what proportion of equity and debt the company is using to finance its assets. This is very much connected to where the MFI is located in its life cycle. Traditionally, the funding structure follows a certain pattern over the life cycle of an MFI. Startups are characterized by a larger dependency on donations, usually in the form of equity grants, whereas the more mature MFI's tend to display higher debt leverage through borrowing and even evolve into a formal institution or a regulated niche bank.

E. Size of Microfinance (Total Asset)

Another factor that can affect the financial performance of an MFI is its size. The size of an MFI is measured by the value of its assets (Amha and Kifle, 2015). According to Yenesaw, (2014) the size of an MFI is significantly positively linked to its financial performance. This variable is included to capture the economies or diseconomies of scale. There is consensus in academic literature that economies of scale and synergies arise up to a certain level of size. Beyond that level, financial organizations become too complex to manage and diseconomies of scale arise. The effect of size could therefore be nonlinear. Natural logarithm of total asset of MFIs is used as a proxy of size. The study observed that since the dependent variable in the model (ROA) can be deflated by total assets it would be appropriate to log total assets before including it in the model. It is argued that failure to become profitable in microfinance is partly due to lack of scale economies Muriu, (2011) this implies that profitable MFIs in Africa have a greater control of the domestic market, and therefore lending rates may remain high while deposit rates remain lower since larger MFIs may be perceived to be safer, therefore this high interest rate spread translates to and sustains higher profits margins. Muriu, (2011) point out that size of MFIs and financial performance has significantly related but loan size is negatively related financial performance meaning controlling for other relevant factors, institutions that make smaller loans are not necessarily less profitable. But the result find that larger loan sizes are associated with lower average costs for both individual-based lenders and solidarity group lenders. Since larger loan size is often taken to imply less outreach to the poor, the result could have negative implications.

F. Age of Micro finance institutions

There is a thought that as MFIs mature, and thus acquire experience in their sector; they increase their likelihood of attaining financial sustainability. This can be explained by the fact that MFIs gradually improve their control over all operations related to issuance of microcredit. In other case, MFIs that have considerable experience in the microfinance sector have diligently applied credit risk management and general efficient management techniques to attain financial sustainability (Andinet, 2013). According to Yenesaw, (2014) Sustainability could relate to the age of MFI. The age refers to the period that an MFI has been in operation since its initial inception. Studies indicate that the MFIs age relates to the financial performance. Amha and Kifle, (2015) states that Age, is grouping by new (1 to 4 years), young (5-8 years) or mature (more than 8 years). The number of years is calculated as the difference between the year they started their microfinance operations and the year of data submitted by the institutions. Therefore the result shows that Age (new) this dummy variable is significant with a positive sign. Implies that if an MFI is new its ROA is 0.03642 higher than the ROA of mature MFIs, it is no longer maturity and experience that provides profitability as in many industries. This indicates that new MFIs entering the industry have different set of goals and operational set of skills leading to profitability.

The study undertaken by Dietich and wanzenried, (2009) in the banking industry, that is determinants of profitability in commercial bank show that, larger banks are slightly less profitable than medium sized banks, with the coefficients being significant at the 10% level. This gives some indication that larger banks cannot benefit from higher product and loan diversification possibilities and even face scale inefficiencies (Andinet, 2013).

2.5.2. Macroeconomic Variable (External Factor)

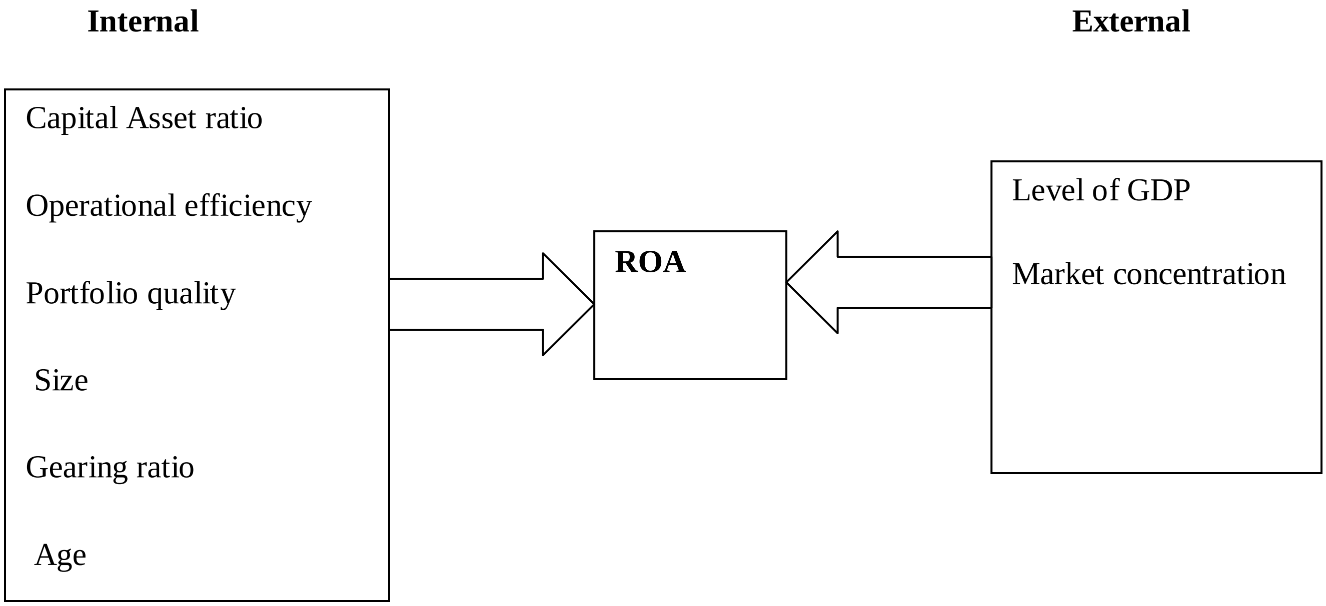
Real GDP: The study used real GDP growth as a proxy of the macroeconomic environment. Arguably, this is the most informative single indicator of progress in economic development. Poor economic conditions can worsen the quality of the loan portfolio, thereby reducing profitability. In contrast, an improvement in economic conditions has positive effect on the profitability of MFIs, (Yenesaw, 2014). Thus, the variable is expected to exhibit positive relationship with MFIs profitability. According to the study undertaken by Yenesaw, (2014) working paper entitled determinants of financial performance of microfinance institutions a macroeconomic and institutional perspective drawing up on the Microfinance information exchange data and cross-country data on macro economy finance and institutions and they found GDP have positive effect on MFIs financial performance.

2.5.3. Industry–Specific Determinants of MFIs (External Factor)

Market Concentration: there are different definitions and measurements for market concentration which is given by different banking area researchers Andinet, (2013). It is the number, size and distribution of banks in a particular market or country. As indicated in other empirical studies market concentration is captured by Herfindahl-Hirschman (H-H) index which is the sum of the square of market share of the sample banks included in particular study. Market share of each bank is measured by the ratio of a bank's total asset to total asset of all banks (Ibid).

Since highly concentrated market lacks proper competition as to setting the price of banking services, it makes the existing banks more profitable. On the other hand, when the concentration of the market reduced and the size and distribution of banks become more dispersed, the banking sector profitability is expected to reduce. Even though different scholars made studies on this area still they didn't agreed whether it is negative or positive effect on performance of MFIs (Amha and Kifle, 2015).

Figure 1: Determinants of financial performance



Source: developed by self design and partly adopted from Muriu, 2011)

2.5.4. Ethiopian Situation and Literature Gaps

The quality literatures on the Ethiopian MFIs financial performance are not as such obtainable. However, the study by Alemayehu, (2008) on which we have accessed to, is worth mentioning. He studied the performance of micro finance institution in Ethiopia by taking six MFIs using simple descriptive analysis using graphs and percentage growth rates. The result shows that Most MFIs are strong performers on return on asset. In connection with liquidity, most MFIs lack strong position to effect immediate obligations. Large MFIs are more efficient and productive than small and medium ones. But small MFIs seem to reach the poorest section of the society. Finally, the trend in performance of microfinance institutions during those years of operation was encouraging.

The study conducted by Kindane, (2007) on one of the largest MFIs in Ethiopia Amhara Credit and Saving Institution (ACSI) shows that ACSI has served more than half a million clients. Over 1.6 million loans have been disbursed worth Birr 1.5 billion. ACSI is among a few MFIs that are able to achieve the highest efficiency at the lowest cost per borrower. The operating cost was as low as five cents in 2005.ACSI also has a high portfolio quality, as delinquency rates are around 1.9%. Melkamu, (2012) Determinants of Operational and Financial Self-Sufficiency: he uses quantitative research approach using panel data regression as the main data analysis technique.

The study was based on a six years secondary data obtained from the mix-market database for twelve selected MFI in Ethiopia. The study found that average loan balance per borrower, size of a MFI, cost per borrowers and yield on gross loan portfolio affects the operational sustainability of Ethiopian MFIs significantly. Whereas cost per borrower, number of active borrowers and yield on gross loan portfolio affect their financial sustainability. The Study also found that MFIs in Ethiopia are operationally self-sufficient while they are not financially self-sufficient. Mekonnen, (2012) on his study regarding determinants of financial sustainability of Ethiopian MFIs, using 6 years data for 12 MFIs from AEMFI; he concluded three things. First, a high quality credit portfolio, joined with the application of sufficiently high interest rates that permit a logical profit and sound management are instrumental to the financial sustainability of MFIs. Second, the percentage of women among the clientele has a weak statistically non-significant negative effect on financial sustainability of MFIs and finally, client outreach of microfinance programs and the age of MFIs have a positive but insignificant effect on attainment of financial sustainability.

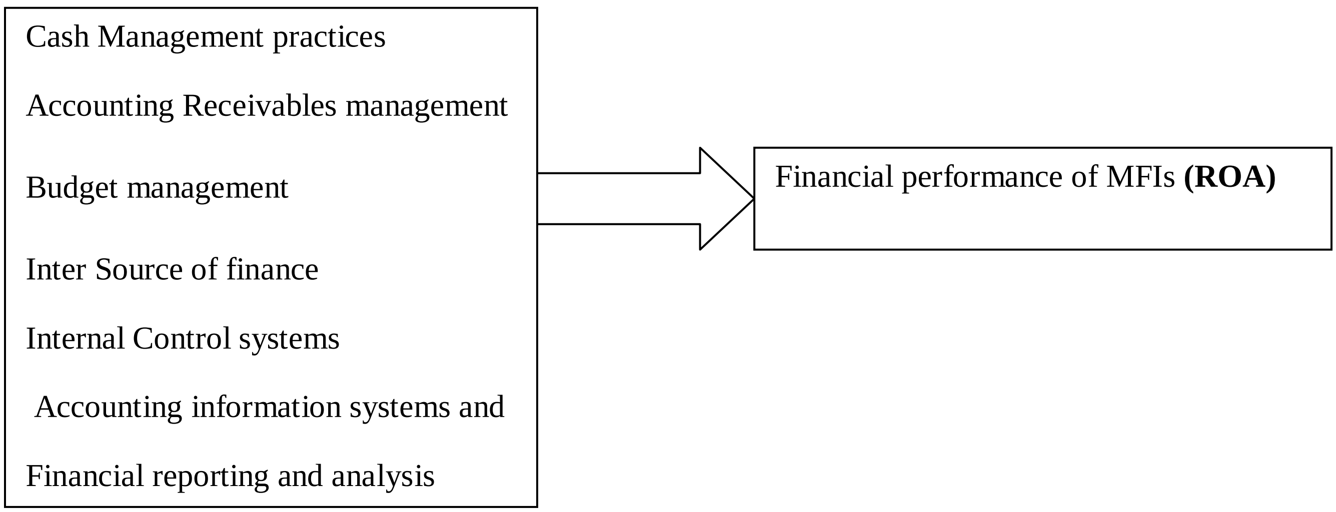
Sima, (2013) on his study examined internal and external factors affecting profitability of microfinance institutions in Ethiopia by including a total of thirteen microfinance institutions covering the period of 2003-2010. The researcher uses quantitative research mainly documentary analysis. The outcome of the study indicates that Age of microfinance institutions has a positive and statistically significant effect on their profitability. However, Operational efficiency and portfolio quality have a negative and statistically significant effect. However, capital adequacy, size and GDP are found to be statistically insignificant variables. The studies conducted in the areas of microfinance institutions in Ethiopia are few in number and did not give such an emphasis on the factors considered to be determinants of financial performance of microfinance institutions in Ethiopia. For example, Alemayehu, (2008) studied the financial and operational performance of micro finance institutions by using simple descriptive analysis and employing graphs and percentage growth rates by classifying small, medium and large. The study did not say anything about factors affecting financial performance of MFIs. The study by Mekonnen, (2012) and Melkamu, (2012) tried to see the determinants of performance by using proxy of financial and operational sustainability of Ethiopian MFIs. They focused only on internal factors and have not considered external factors like macroeconomic and industry and also they have not addressed specifically the idea of financial performance of MFIs. In addition Sima, (2013) studied determinants of profitability of Ethiopian micro finance by using Microfinance specific and macroeconomic factors from secondary data. Therefore the above studies use limited variables which focus in MFI-specific and macroeconomic factors only and not say anything about effect of financial management practices on financial performance of MFIs in their study. Since it is believed that MFIs must be profitable for their healthy operation and attainment of the long term goal which is improvement of poverty, the study would found out the effect of financial management practices on financial performance of MFIs by primary and secondary (to some extent) data and fill the gap in the context of Ethiopian MFIs particularly Jimma Zone.

2.6. Conceptual Framework

Mugenda, (2008) defines conceptual framework as a brief portrayal of the observable fact under study accompanied by a graphical or visual description of the major variables of the study. Conceptual framework is a diagrammatical representation that shows the relationship between dependent and independent variables (Kilonzo Jennifer M, Ouma Dennis**,** 2015). In the study, the conceptual framework would look at the relationship between financial management practices of MFIs on selected MFIs and their effect on financial performance of MFIs. The dependent variable is MFIs financial performance which is measured by ROA and ROE and independent variables are Cash management practices, Accounting Receivables, Budget management, Internal Control, Source of finance, accounting information systems and financial reporting and analysis.

Figure 2: Conceptual framework

Independent Variables **Dependent Variable(s)**



Source: Researcher own design and partly adopted from Muriu, (2011)

In short financial management practices is depend on or measured efficiency of cash management, efficiency of budget management, efficiency of Accounting information system, efficiency of internal control system, efficiency of financial reporting and analysis and Source fund. But financial performance of MFIs depends on or is measured by ROA.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

Under this chapter the researcher would explain the research design and methodology, target population, sampling technique and sample size, methods of data collection, data analysis and techniques and also operational definition and model specifications would be presented.

3.1. Research Design

The study with the aims of assessing effect of financial management practice on financial performance of MFIs and descriptive method and more of qualitative study would be under-taken. The descriptive type of research design helps to identify and evaluate the causal relationships between the different variables under consideration. Mixed methods research provides better (stronger) inferences. The study would also employ explanatory research approach as the literature on research methodology shows explanatory research approach tends to assume that there is a cause and effect relationship between known variables of interest. In line with this, explanatory research tests the theoretically established relationship between variables using sample data with the intention of statistically generalizing for the population under investigation. In addition by using a mixed approach it is able to capitalize the strength of quantitative and qualitative approach and remove any biases that exist in any single research method (Yenesaw, 2014).

Therefore, to measure the financial performance of MFIs in Ethiopia, ROA and ROE would be applied as the dependent variables because the Microfinance financial reporting standards recommends the use of ROA and ROE as measures of profitability rather than financial self-sufficiency (FSS) and operational self-sufficiency (OSS) (Muriu, 2011).

3.2. Target Population

The target population for this study is microfinance institutions currently operating in the country particularly which are available in Jimma Zone. According to AEMFI (2014), there are 35 microfinance institutions which are providing a microfinance service to the poor society in Ethiopia on the current period. However, only three of them are operating in Jimma Zone currently (AEMFI, 2015).

3.3. Sampling Technique and Sample Size

A sample of a subject would be taken from the total population to make conclusion about the population because it is time consuming and expensive to collect data about every individual institutions in the population. However, where the selected sample can reliably represent the population, the sample can still be used to make inferences about the population (Collis and Hossey, 2003 cited in Mekonnen, 2012). OCSSCO, Eshet Share Company and Harbu Share Company had 21, 6 and 6 branches in Jimma Zone respectively. The researcher would decide to distribute questioners (by census) to 66 employees from 10, 3, and 3 branches of OCSSCO, Eshet Share Company and Harbu Share Company respectively. Therefore, this study would be use a sample of 50 respondents by census and interviewed 16 managers purposively from the total population of 148 MFIs which are Oromia Credit and Saving Institution Share Company (OCSSCO), Eshet Micro Finance Institution Share Company and Harbu Micro Finance Institution Share Company, because these employees had direct relation or contact with the research objective and questionnaires by their position in the institutions and currently working in the above sixteen branches of MFIs. According to Singh, (2006) when the subject's uses in the sample is homogeneous using census sampling technique is appropriate. In simple way;

position	**Branches**																	**Selected**
	B1	B2	B3	B4	B5	B6	B7	B8	B9	B10	B11	B12	B13	B14		B15	B16		16
Manager	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1		16
Auditor	1	1		1		1	1	1	1		1						1		9
Credit analyst	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1		16
Senior finance officer	1	1	1	1	1	1	1	1	1	1	1						1		11
Cashier	1	1	1	1	1	1	1	1	1	1	1						1		11
Data base manager				1							1						1		3
Total																			**66**

Source: Designed by Researcher, 2016

Where;

OCSSCO

B1=Manna

B2=Gomma

B3=Agaro

B4=Jimma

B5=Sarbo

B6=Saka

B7=Gedo

B8=Shabe

B9= Sokoru

B10=Billida

HARBU

B11=Jimma

B12=Saka

B13=Gedo

EHET

B14=Saka

B15=Yabu

B16=Jimma

3.4. Source and Methods of Data Collection

The sources of data for this research are almost primary sources, but for the purpose of supporting the finding of the research, secondary data would be used to some extent. Primary data would be collected by interviewing (judgmental) the branch managers of 16 and 50 employees of MFI include in the study through structured survey questionnaires by using purposive sampling.

The questionnaire would have both open and close-ended questions. The close-ended questions would provide more structured responses to facilitate tangible recommendations. The open-ended questions would provide additional information that might not have been captured in the close-ended questions. The secondary data which would be used to analyze MFIs–specific variables like Cash Management, Account Receivables, Budget management, Internal control, Source of finance, Accounting Information System and financial reporting and analysis Systems would be collected from financial ratios measuring liquidity, financial leverage, activity and profitability of the institutions. The financial statements of the institutions were the source of such information. The audited financial statements of the selected institutions for the year 2013/4 were collected from AEMFI annual report and to analyze external-specific variables would be collected from MOFED.

3.5. Data Analysis Techniques

The method of data analysis used in this study were descriptive statistics, such as frequency, percentage, mean, minimum, maximum, standard deviation and interpret with the help of descriptive statistics and inferential statistics which is chi-square test (significant test) of independence were applied in the study and the researcher also uses and SPSS 20 for windows software package for primary data analysis.

3.6. Description of Study Variables and their Measurements

3.6.1. Dependent Variable(S)

Return on Asset (ROA) measures how effectively and efficiently institution uses all its assets. It is also the whole measure of profitability which reflects both the profit edge and the efficiency of the institutions (AEMFI, 2015). Return on Asset (ROA) is applied as the dependent variables because the Microfinance Financial Reporting Standards recommends the use of ROA and ROE as measures of profitability rather than financial self-sufficiency (FSS) and operational self-sufficiency (OSS) (Muriu, 2011). ROA may be biased due to off balance-sheet items. However, it can be argued that such activities may be insignificant in MFIs. The ROA reflects the ability of MFI"s management to make profits from the MFI's assets. It shows the profits earned per birr of assets and indicates how effectively the MFIs assets are managed to generate revenues. In Banks and other commercial institutions, the most common measure of performance is return on asset (ROA) for instance (Yenesaw, 2014).

According to the thesis on banking sector profitability, using return on equity (ROE) has its own limitation than using return on asset. One of the limitations is the, timing problem (it is thought that Managers should be forward looking but ROE is accurately the opposite: Because they paying attention on a single period. The risk period, ROE will not tell institutions or a firm about what risks institutions has taken to produce it. The Value period ROE measures the return on shareholders' investment only by using Book Value of shareholders equity not the market value. Portfolio quality is a critical area of performance analysis, since the largest source of risk for any financial institution resides in its loan portfolio. For microfinance institutions, whose loans are typically not backed by bankable collateral, the quality of the portfolio is absolutely crucial (American Development Bank, 2003 cited in AEMFI, 2015) Portfolio quality is a vital area of analysis, since it is the largest source of risk for any financial institution. Therefore, as much as possible, MFI"s must try to maintain the quality of their portfolios. For this study, portfolio quality is measured as portfolio at risk over 30 days (PAR >30 days).

According to Muriu, (2011) empirical study on determinants of profitability of African MFIs, under the study "what explains the low profitability of MFIs in Africa" tried to find the factors contributing to profitability of MFIs. He used Generalized Method of Moments (GMM) system using an unbalanced panel dataset comprising of 210 MFIs across 32 countries operating from 1997 to 2008. The proxies for profitability were both ROA and ROE. Credit risk measured by the sum of the level of loans past due 30 days or more (PAR>30) and still accruing interest is negatively and significantly related to MFI profitability. This study therefore finds evidence to support the conjecture that increased exposure to credit risk is normally associated with lower MFI profitability. The other study which is undertaken by Lafourcade et al, (2006) Overview of the Outreach and Financial Performance of Microfinance Institutions in Africa by taking 163

MFIs from 25 countries show that MFIs around the world continue to demonstrate low PAR > 30 days, with a global average of 5.2 percent but African MFIs maintain relatively high portfolio quality, with an average PAR > 30 days of 4.0 percent, performing better than their counterparts in South Asia (5.1 percent), LAC (5.6 percent), and East Asia (5.9 percent). When MFIs are faced with poor portfolio quality, they may write off the loans from their books or refinance the loans by extending the term, changing the payment schedule, or both. The result shows that loan at risk is negatively correlated with MFIs financial performance. Therefore based on the above rationality this study was used ROA as the proxy for financial performance (Mekonnen, 2012).
Return on Asset = Net Profit After tax divided by Average Total Assets

3.6.2. Independent Variables

To measure the predictor variables of financial performance of firms in Ethiopia, seven measures are used as independent variables which are extracted from different studies. The variables are namely, Cash management, Accounts receivable management and record keeping practices, Budget management practice, internal control, Accounting Information System, financial reporting and analysis Systems and Source of funds (Kilonzo Jennifer M, Ouma Dennis**,** 2015).

1.7. Model Specification

This section covers the operational descriptive and Chi-square model (significance test) that were used in the study. Since the source of this study was almost primary data, descriptive and Chi-square used for this study to assess the effect of financial management practices on the financial performance of MFIs in Jimma Zone is explained as follows.
The following model was developed based on literature

$$ROAit = \beta 0i + \beta 1 * CMit + \beta 2 * ARit + \beta 3 * BMit + \beta 4 * ICit + \beta 5 * AISit + \beta 6 * FRAit + \beta 7 * SFit + \mu it$$

Where β1 to β7 are the coefficients of the variables and μit is the random error term.

βoi; stands for the intercept term which varies across MFIs but constant over time

β1*ECMit; stands for efficiency in cash management for MFIs i at time t

β2 *EARit; stands for efficiency in Account Receivables for MFI i at time t

β3 *EBMit; stands for efficiency in Budget management for MFI i at time t β4 *EICit; stands for efficiency in internal control for MFI I at time t

β5*EAISit; stands for efficiency in Accounting information system for MFI i at time t

β6*EFRAit; stands for efficiency in financial reporting and analysis for MFI i at time t

β7 *SFit; stands for inefficiency Source of finance for MFI i at time t

CHAPTER FOUR

4. RESULTS AND DISCUSSIONS

4.1. Introduction

This chapter deals with the results of study which include descriptive statistics of variables, correlation results for dependent and explanatory variables, model specification tests (Chi-square significance tests), correlation matrix and finally presentation of secondary data by descriptive analysis and discussion of results is the major task that would be under-taken in this chapter.

4.2. Descriptive Statistics of Analysis

Table 1: Demographic characteristics of Respondents

Characteristics	Variable	Number (%age)
Sex of respondents	Male	40 (69.70%)
	Female	20 (30.30%)
	Total%	66 (100%)
Age of respondents	18-28	50 (75.75%)
	29-38	14 (21.22%)
	39-49	2 (3.03)
	50and above	0 (0%)
	Total%	66 (100%)
Educational status	Certificate	0 (0%)
	Diploma	25 (37.88%)
	Degree	40 (60.60%)
	Masters and above	1 (1.52%)
	Total%	66 (100%)
Working experience	1-5	52 (78.79%)
	6-10	10 (15.15%)
	11 and above	4 (6.06%)
	Total%	66 (100%)

Source: OCSSCO, Harbu, Eshet MFIs and Researcher’s Computation, 2016

Majority (69.70%) of the respondents were males while females constituted 30.30%. Since the sample was drawn at simple random, it can be concluded that there were more male MFIs employers compared to female MFIs employers. Majority of the respondents at 75.75 % were aged between 18 and 28 years followed by 21.21 % aged between 28 and 38 years. Then 3.03% of the respondents were within the age of to 39-49 years and 0% of the respondents were above 50 years. This implies that majority of MFIs employers are youthful. Degree education was the most common at 60.60%, followed by diploma at 37.88%. The least was postgraduate level at 1.52%. We can make the general conclusion that a large percentage of the respondents were well educated and as a result, the majority of the respondents would be able to engage in financial management practices which enhance financial performance of MFIs. Majority of the respondents at 78.79% had a working experience of 1to5 years. Followed by 15.15% who had a working experience of 6 to 10 years and 6.06% of the respondents had a working experience of 1 above11years. This implies that majority of the respondents have not good experience on financial management practices in MFIs.

Table 2:Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CM	66	1.20	5.00	2.6212	1.11941
AR	66	1.00	5.00	2.2121	1.37578
BM	66	1.25	5.00	2.6591	1.11944
IC	66	1.00	5.00	2.2121	1.37578
SF	66	1.00	2.00	1.6667	.47502
AIS	66	1.00	2.00	1.6667	.47502
FRA	66	1.00	5.00	2.2121	1.37578
ROA	66	-1.20	3.86	2.1786	.79063
Valid N (listwise)	66				

Source: - SPSS output from financial statement of MFIs and annual report of AEMFI (2015)

The above table indicates that the mean values of all the variables ranges from minimum of 2.1786 for ROA to a maximum of 2.6212for CM. The average profitability as measured by ROA for Ethiopian MFIs during the study period is about 2.1786 and the value of the standard deviation for ROA is 0.8 which implies the presence of good variations among the profitability across the Micro finance institutions included for this study. The maximum and minimum values of ROA ware 3.86 and 1.20 respectively. That means the most profitable micro-finance institutions earned 3.86 of net income from a single birr of asset investment. And the minimum losses incurred by micro-finance institutions are -1.20 cents on each birr of asset investment.

Table 3: Cash Management Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	39.111[a]	4	.000
Likelihood Ratio	17.816	4	.165
Linear-by-Linear Association	2.087	1	.149
N of Valid Cases	66		

a. 5 cells (89.3%) have expected count less than 5

Source: SPSS output from survey data, 2016

The overall relationship between cash management and financial performance of MFIs in Jimma Zone was statically significant (x^2= 39.111, DF=4=p=.000). It implies that cash management has effect on financial performance of MFIs and has direct relation with it. When we say direct relation means if cash management are properly managed then the financial performance of MFIs will also increase with the amount of cash management rate. Cash management practices among Small micro-finance enterprises were found to be inadequate in the study done by (Grablowsky, 2008). According to Grablowsky, (2008) cash management are not practiced accordingly which affect profitability or financial performance of institutions and finally Grablowsky, (2008) conclude that inefficiency of cash management practices have significant effect on financial performance of any institutions and which strongly agree with this study. Therefore, first hypothesis (H1) - Cash management practices have effect on financial performance of MFIs in Jimma Zone is accepted**.**

Table 4: Account Receivables Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.320[a]	4	.010
Likelihood Ratio	10.290	4	.036
Linear-by-Linear Association	2.087	1	.149
N of Valid Cases	66		

a. 5 cells (50.0%) have expected count less than 5.

Source: SPSS output from survey data, 2016

The overall relationship between Account Receivables and financial performance of MFIs in Jimma Zone was statically significant (x^2= 13.320, DF=4=p=.010). It implies that Account Receivables has effect on financial performance of MFIs and has direct relation with it. When we say direct relation means if Account Receivables are properly handled, then the financial performance of MFIs will also increase with the amount of Account Receivables. But when we compare to the cash management it is less significant which 0.10 is greater than 0.000. Regarding accounts receivable management practices, Grablowsky, (2008) found generally low standards. Means if account receivables are not managed and practiced well the result in financial performance is low. Therefore, it has significant effect on financial performance of the institutions. Therefore, second hypothesis (H2) – Account receivables management practices have effect on financial performance of MFIs in Jimma Zone is accepted.

Table 5: Budget Management Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	21.551[a]	4	.043
Likelihood Ratio	13.259	4	.350
Linear-by-Linear Association	2.142	1	.143
N of Valid Cases	66		

a. 5 cells (80.8%) have expected count less than 5.

Source: SPSS output from survey data, 2016

The overall relationship between Budget management and financial performance of MFIs in Jimma Zone was statically significant (x^2= 21.551, DF=4=p=.043). It implies that Budget management has effect on financial performance of MFIs and has direct relation with it. When we say direct relation means if Budget management are managed accordingly, then the financial performance of MFIs will also increase with the amount of Budget management increase rate. But when we compare to the cash management it is less significant which 0.043 is greater than .000. As it approaches to zero its significance will increase. In a study conducted in South Africa, Olawale, et al., (2010) found out that budget management practices have significant effect on financial performance of MFIs which agree with this study. Therefore, third hypothesis (H3) - Budget management practices have effect on financial performance of MFIs in Jimma Zone is accepted.

Table 6: Internal Control Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.320[a]	4	.010
Likelihood Ratio	10.290	4	.036
Linear-by-Linear Association	2.087	1	.149
N of Valid Cases	66		

a. 5 cells (50.0%) have expected count less than 5.

Source: SPSS output from survey data, 2016

The overall relationship between internal control and financial performance of MFIs in Jimma Zone was statically significant (x^2= 13.320, DF=4=p=.010). It implies that internal control has effect on financial performance of MFIs and has direct relation with it. When we say direct relation means if internal control are controlled accordingly, then the financial performance of MFIs will also increase with the amount of internal control increase rate. But when we compare to the cash management it is less significant which 0.043 is greater than .000 and more significant than Account Receivables but equally significant with Budget management. As it approaches to zero its significance will increase. Institutions must provide safeguards for all grant property, whether cash or other assets, and assure that it is used solely for authorized purposes. Control will be enhanced if the duties of the members of the Institutions are divided so that no one person handles all aspects of a transaction from beginning to end. The person who is responsible for the physical custody of an asset should not also have responsibility for keeping the records related to that asset (Ayene et al., (2014). According to Ayene et al., (2014) internal controls have significant effect on financial performance of any organizations or institutions, which agree with this study founds. Therefore, fourth hypothesis (H4) – Internal control management practices have effect on financial performance of MFIs in Jimma Zone is accepted.

Table 7: Source of Finance Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	6.286[a]	1	.012		
Continuity Correction[b]	3.536	1	.060		
Likelihood Ratio	6.882	1	.009		
Fisher's Exact Test				.034	.034
Linear-by-Linear Association	6.190	1	.013		
N of Valid Cases[b]	66				

a. 2 cells (50.0%) have expected count less than 5.

b. Computed only for a 2x2 table

Source: SPSS output from survey data, 2016

The overall relationship between source of finance and financial performance of MFIs in Jimma Zone was statically significant (x^2= 6.286, DF=1=p=.012). It implies that source of finance has effect on financial performance of MFIs and has direct relation with it. When we say direct relation means if internal control are given their service accordingly, then the financial performance of MFIs will also increase with the amount of source of finance increase rate. But when we compare to the cash management, Budget management and internal control it is less significant and more significant than Budget management.

According to Myers, (2004) the Pecking Order Theory (POT) suggests that there is no well-defined optimal capital structure; instead the debt ratio is the result of hierarchical financing over time. The foundation of Pecking Order Theory is that firms have no defined debt-to-value ratio. Management has a preference to choose internal financing before external financing. When a firm is forced to use external financing sources, managers select the least risky and demanding source first. When it is necessary to issue external sources, debt issuance is preferred to new equity. In an attempt to explain small firm financing behavior, other scholars have relied on agency theory. Agency theory holds that investors who have equity or debt in a firm require costs to monitor the investment of their funds by management or the small business owner (agency costs). This view suggests that financing is based on the owner-manager being able to assess these agency costs for each type of financing, and then select the lowest cost method of financing the firm's activities and they summarized source of finance have significant effect on any business performance. One weakness of this explanation is that no one has yet been able to measure agency costs of MFIs. But this study found out that source of finance has positive effect on financial performance of MFIs in Ethiopia. Therefore, fifth hypothesis (H5) - Source of finance have effect on financial performance of MFIs in Jimma Zone is accepted.

Table 8: Accounting Information System Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	6.286[a]	1	.012		
Continuity Correction[b]	3.536	1	.060		
Likelihood Ratio	6.882	1	.009		
Fisher's Exact Test				.034	.034
Linear-by-Linear Association	6.190	1	.013		
N of Valid Cases[b]	66				

a. 2 cells (50.0%) have expected count less than 5.

b. Computed only for a 2x2 table

Source: SPSS output from survey data, 2016

The overall relationship between Accounting information systems and financial performance of MFIs in Jimma Zone was statically significant (x^2= 6.286, DF=1=p=.012). It implies that accounting information systems has effect on financial performance of MFIs and has direct relation with it. When we say direct relation means if Accounting information systems are properly handled, then the financial performance of MFIs will also increase with the amount of accounting information systems rate. Where managers have greater skills and knowledge of the accounting information systems and financial management practices they are more likely to generate financial reports and use them to make informed decisions (Van Auken and Carraher, 2013). In addition to this Tourna and Germanos, (2000) found that efficiency of accounting information systems have significant effect on profitability or financial performance of any institutions. And also this study found that accounting information systems have significant effect on financial performance of MFIs in Ethiopia particularly Jimma Zone. Therefore, sixth hypothesis (H6) – Accounting information system practices have effect on financial performance of MFIs in Jimma Zone is accepted.

Table 9: Financial Reporting and analysis Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.320[a]	4	.010
Likelihood Ratio	10.290	4	.036
Linear-by-Linear Association	2.087	1	.149
N of Valid Cases	66		

a. 5 cells (50.0%) have expected count less than 5.

Source: SPSS output from survey data, 2016

The overall relationship between financial reporting and analysis and financial performance of MFIs in Jimma Zone was statically significant ($x^2$13.320, DF=4=p=.010). It implies that accounting information systems has effect on financial performance of MFIs and has direct relation with it. When we say direct relation means if financial reporting and analysis are properly reported and analyzed, then the financial performance of MFIs will also increase with the amount of Account Receivables.

Bookkeeping alone without preparing reports is likely not to be fundamental in aiding decision making unless proper reports are prepared and analyzed to attach a meaning so as to help decision makers. D'Amboise and Gasse, (1980) studied the use of financial statement analysis by small manufacturers in Quebec, Canada and found that small manufacturers in shoe and plastic industries formally undertook the analyses based on financial statements and the findings revealed that manufacturing firms managerial decisions were largely based on the financial reports prepared. And finally conclude that financial reporting and analysis have significant effect on institution. Therefore, Seventh hypothesis (H7) – financial reporting and analysis practices have effect on financial performance of MFIs in Jimma Zone is accepted.

De Thomas and Fredenberger, (1985) in a survey of over 360 small enterprises in Georgia, found that the standard of financial record keeping was very high. In addition to cheque and deposit receipts, around 92 percent of respondents had some form of record keeping which disagree with this study which found that financial reporting and analysis standard was very low and have significant effect on MFIs in Ethiopia particularly Jimma Zone. But finally, De Thomas and Fredenberger, (1985) conclude that financial reporting and analysis have significant effect on financial performance of the enterprises if they were didn't practices highly. However they didn't conduct study on Microfinance institutions. Consequently, the study failed to reject all the null hypotheses leading to the conclusion that financial performance of MFIs in Ethiopia particularly Jimma Zone is affected by Cash management practices, Account Receivables practices, Budget management practices, Internal control, Source of finance Accounting information system, and financial reporting and analysis practices.

Table 10: Correlation matrix

	ROA	CM	AR	BM	IC	SF	AIS	FRA
ROA	1							
CM	0.450	1						
AR	0.66	0.30213	1					
BM	0.603	0.42017	0.699	1				
IC	0.702	0.30130	1.000	0.3969	1			
SF	0.607	0.29331	0.655	0.4875	0.5240	1		
AIS	0.750	0.29331	0.755	0.5875	0.4550	1.000	1	
FRA	0.6902	0.30301	1.000	0.3969	1.000	0.78050	0.8550	1

**. Correlation is significant at the 0.05 level (2 tailed).

Source: SPSS output (2016).

4.2. Correlation Analysis

According to Yenesaw, (2004) multiple correlations are a measure of the degree of association between dependent and all the independent (explanatory variables) jointly. The analysis was meant to first, indicate whether variables were correlated or not. If variables are not correlated then using several simple regressions or one multiple regression models could give the same results (Ibid). The main aim of conducting correlation is whether multi-co linearity is strong enough to invalidate the instantaneous enclosure of the explanatory variables in regressions. Multi-co linearity could only be a problem if the pair-wise correlation coefficient among regresses is above 0.80 and according to Hailer, 2006 cited in Yenesaw, (2014) Multi-co linearity could only be a problem if the pair wise correlation coefficient among regresses is above 0.90 which is not more or less in the case of this study variables (Ibid).

By taking a correlation result which is presented above only 2013 the study period the independent variables to dependent variable which is the Return to asset ratio (ROA), and all independent variables positively correlated with ROA, implies that when CM, AR, BM, IC,SF, AIS and FRA increases ROA move same direction(will increases).

Cash management practices (independent variables) and ROA ($r= 0.450$, $p< 0.05$). This means that efficient cash management practices like cash receipt cash flow projections, cash reconciliation, cash operating limit and permanent teller management is highly associated with improved business performance among MFIs.

The findings show that that there is a positive and significant correlation between account receivables management practices and financial performance of MFIs ($r= 0.66$, $p< 0.05$). This is shows that there is a moderate relationship between account receivables management practices and financial performance of MFIs. This implies that efficient account receivables practices are associated with high financial performance levels. Results further show that there is a positive and significant relationship between budget management practices and financial performance of MFIs ($r= 0.603$, $p< 0.05$). This implies that efficient budget management practices like cash forecast and plan, board's participations and report in annual budget reviews and delay of fund transfer from donor is highly associated with better financial performance of MFIs. The results indicated a positive and significant relationship between internal control practices and financial performance of MFIs ($r= 0.702$, $p< 0.05$). This implies that efficient internal control practices are highly associated with high financial performance since the records will show how the MFIs are performing. In regard to source of finance, the findings shows that that there is a positive and significant correlation between source of finance and MFIs financial performance ($r= 0.750$, $p< 0.05$). This is shows that there is a strong relationship between source of finance and MFIs financial performance. This implies that efficient source of finance are associated with high financial performance levels. It is evident that there is a positive and significant correlation between Accounting information systems and MFIs financial performance ($r= 0.750$, $p< 0.05$) and financial reporting and analysis practices have positive correlation with financial performance of MFIs (0.6902, $p < 0.05$). The multiplicative effect of all practices including cash management, account receivables, budget management, internal control, source of finance, accounting information systems and financial reporting and analysis investing have a strong association with financial performance of MFIs. The correlation between financial management practices and business performance was as follows: cash management $r = 0.450$, $p < 0.05$; account receivables $r = 0.66$, $p < 0.05$; budget management practices $r = 0.603$, $p < 0.05$; internal control practices $r=0.702$, $p < 0.05$, source of finance $r= 0.607$, $p < 0.05$; accounting information system $r = 0.750$, $p < 0.05$ and financial reporting and analysis $r= 0.6902$, $p < 0.05$. In view of the fact that all correlation coefficients were positive and significant it shows that all financial management practices were positively related to financial performance. This implies that efficient financial management practices combined together are associated with high financial performance levels among MFIs. To test the predictive power of the study variables, from the hypothesized model

$ROAit = \beta 0i + \beta 1 *CMit + \beta 2 *ARit + \beta 3 *BMit + \beta 4 *ICit + \beta 5*AISit + \beta 6*FRAit + \beta 7 *SFit + \mu it$

Where;

ROA is dependent variables

$\beta 1$ to $\beta 7$ are the coefficients of the variables and μit is the random error term.

βoi; stands for the intercept term which varies across MFIs but constant over time

$\beta 1*ECMit$; stands for efficiency in cash management for MFIs i at time t

$\beta 2 *EARit$; stands for efficiency in Account Receivables for MFI i at time t

$\beta 3 *EBMit$; stands for efficiency in Budget management for MFI i at time t

$\beta 4 *EICit$; stands for efficiency in internal control for MFI I at time t

$\beta 5*EAISit$; stands for efficiency in Accounting information system for MFI i at time t

$\beta 6*EFRAit$; stands for efficiency in financial reporting and analysis for MFI i at time t

$\beta 7 *SFit$; stands for efficiency in Source of finance for MFI i at time t

As the above results indicate all the models were significant since the model fit was met.

4.3. Interview Results of Branch Manager

As it was explained in the methodology part of this research, there was interview with the OCSSCO, Harbu, and Eshet MFIs official to support and make the result tangible .From this discussion, information was gathered in relating with; factors which are mainly affect the institution financial performance, main challenges, areas to improve and solution for the problems of the institution face frequently.

Almost all managers raised their ideas clearly. For instance, they replied default risk, political change, corruption, poor planning, poor leadership ability, and poor governance are factors which affect financial performance of the institution and out of these factors the institution frequently face default risk and poor planning. For these problems government should give proper support for MFIs to improve their financial performance especially to get facilitated loan fund from banks and the institution must be recruit trained man power at head office. To alleviate default risk the institution should focus on proper loan appraisal technique for branch level loan officers and follow-up it accordingly. In addition to this the main challenges that need more attention is about system that the institution is using means manual system should be changed to banking system or computerized system to enhance financial performance.

As discussed with the branch manager the above problems is the result of in efficiency of financial management practices which have significant effect on financial performance of MFIs. Because MFIs shouldn't comply with the Donors, Government rules and regulations and the financial management standards and GAAP in their reporting of financial affairs, use banking systems in all of their activities and apply financial management practices accordingly as much as possible and follow-up.

Table 11: financial indicators of OCSSCO, Harbu, and Eshet MFIs

	OCSSC0	Harbu	Eshet	Average
Return on Assets	4%	1%	3%	2%
Average Total Equity	18%	4%	12%	11%
Operational self-sufficiency	142%	107%	118%	122%
Financial self-sufficiency	102%	80%	78%	86%

Source: AEMFI, 2015

From the above table we conclude that OCSSCO, Harbu and Eshet MFIs their financial capacity is almost the composed of operational self-sufficiency followed by financial self-sufficiency, which is 122% and 86% respectively. Return on Asset is 2% which indicate their performance is very small but positive. Means OCSSCO, Harbu and Eshet MFIs are earning a very small amount of profit in average. Since these MFIs are different in age and size which they are in different categories like OCSSCO and Eshet is Large, while Harbu is Medium depending on their age. From the three types of MFIs OCSSCO is the largest in all aspects (i.e.), Return on assets, Average total equity, Operational self-sufficiency and financial self-sufficiency. MFIs' assets encompass mainly loan portfolio, fixed assets in the form of building, machinery, computer, furniture, etc., and cash and bank balances. The assets size of a MFI is an important indicator for understanding its robustness. MFI in Ethiopia have shown significant growth in total assets. As of June 2013, the sector had a total assets holding of Birr 18 billion, which represents an increase of over 38% compared to 2012. The largest MFIs enjoy the lion's share of total assets in the industry. Among 14 large relatively MFIs, the three largest ones (namely, ACSI, DECSI and OCSSCO) accounted for 33%, 20%, and 16% of the total assets all MFIs, respectively. The remaining 14 MFIs; i.e., the small and medium ones contributed only 2.7%of total assets in 2013. The situation was almost similar in 2012 and 2011. Moreover, unexpectedly, the small MFIs, (except for somale) showed a decline in their total assets. This means that even though total asset in the industry increased by 35% the market share of the small and medium MFIs remained the same in the last three years. The largest MFIs, on the other hand, continued to increase their assets at an average rate of 40%. Sidama and Aggar for example, grew by 111% and 74% respectively (Amha and Kifle, 2015). The financial performance of MFIs is reviewed based on their ability to generate sufficient revenue from their loan portfolio in order to cover their financial and operating costs. Financial performance, such as return on equity and return on assets, operational self-sufficiency and financial self-sufficiency of MFIs provide the financial performance indicators in all areas. Although, poor portfolio quality affects profitability of MFIs, profitability indicators are difficult to interpret as they are results of complex managerial factors. High return on equity says little about the reasons behind high profitability of a MFI. All performance indicators may be misleading if they are looked in isolation (Ibid).

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATIONS

5.1. Summaries of the Thesis and Main Findings

It appears that there have not been adequate studies made on this area, the effect of financial management practices on financial performance of MFIs a case study of MFIs found in Jimma Zone. However, few studies have been conducted to examine whether financial management practices have effect on growth of SMEs, but there is no agreement on results and some of them gainsay each other. At one extreme are studies arguing that financial management practice have effect on financial performance of MFIs in economically, politically and socially, whereas at the other are writers who caution against such optimism and point to the negative effects that microfinance can have. Given this state of affairs the effect of financial management practices on financial performance of MFIs remains an important field for researchers, policy makers and development practitioners.

Caring on financial management practices, is to enhance the welfare and economic situation of the institution by making proper management practices regarding cash management, Account Receivables, Budget management, Internal Control systems, source of finance, Accounting information systems, and financial reporting and analysis to help them engage in profitable activities which enhance financial performance of MFIs if they are exercised well (Karunananda A. and Jayamaha A, 2011).

Based on this assumption, it was hypothesized that giving care for financial management practices areas in microfinance leads to improving financial performance of the institutions, and improve country in economically, socially and politically. This paper is designed to assess the effect of financial management practices on financial performance of MFIs found in Jimma Zone.

According to Kilonzo Jennifer M, Ouma Dennis, (2015), the purpose of an effect assessment is to answer the question of whether the financial management practices have effect on financial performance of MFIs and the areas to be improved in the financial management practices of the MFIs in Jimma Zone with respect to financial performance.

Financial management practices are enhancing an institution on way towards efficiency goals and success of its mission, and to reduce poverty along the way. Additionally it improve financial performance of any business or institutions by encouraging practices encourage transparency, responsibility, competence, reduce risk of asset loss, and help to ensure the consistency of financial statements and conformity with rules and regulations. Most findings of this study were consistent with the objectives of the financial management practices of MFIs, that the study was initiated to assess. Findings of the study made based on the study research questions on the effect of financial management practices on financial performance of MFIs in the study area would be summarized as follows:

The assessments were focused on the effect of financial management practices on institutions socio-economic conditions, or on their financial performance which mainly associated with the cash management, Accounting Information Systems, Internal Control Systems, Account Receivables, Budget management, and financial reporting and analysis.

Demographic Characteristics:

The survey indicated that most of employees were young, Degree, and less experience in their ages, educational status and working experience respectively. This indicates that employees of MFIs in Jimma Zone are in efficient in their financial management practices areas because of low in their experience.

Consequently, they respond that they want training regarding what they are doing, since training is not yet given to them and they think in efficient in financial management practices are the result of absence of training. In efficient in financial management practices results poor financial performance of the institutions. Therefore, based on the study trained man power is essential to improve financial practices in their day to day activities which result good financial performance.

Cash Management practices:

The study indicate that cash management has significant effect on financial performance it needs a great care regarding receipts, cash flow projection, reconciliation, operating limit, and permanent teller. Cash management is not simple task and it is a back bone of business or any institution. Therefore, if the staffs of MFIs have full knowledge about how to manage cash, which is more liquid and they will perform good result in their financial performance.

Account Receivables Management Practices:

Account Receivables are significant have effect financial performance of Microfinance institution of Ethiopia particularly Jimma Zone. These is because of financial management of the institution is not in line with donors requirements, institution are not using computer efficiently and donors are not provides training which are elements of account receivables as indicated by different literature. Therefore, donors requirements, using computer and provide training are the critical areas of Microfinance institutions to be proved financial performance of MFIs which results from inefficient of account receivables practices.

Budget Management Practices:

Cash forecast is not always prepared and planned well, boards are not participating in annual budget of the institution as needed and based on the study there is a occasions that the institutions are not perform good result on the planned time due to delay of fund transfer from the donor. As a result of these the issues of budget management have significant effect on financial performance of Microfinance institution of Ethiopia particularly Jimma Zone.

Internal Control Systems practices:

To say some company’s or institution is good in their financial activities, internal control systems should be strong. These internal control systems are measured by some elements like segregation of duties, qualities of staffs, job descriptions which clearly describe financial management duties and responsibilities. But Jimma Zone is not fulfilling the above qualification which result inefficient of internal control practices and have significant effect on financial performance of microfinance institution.

Financial Reporting and Analysis practices:

As study shows, most of the time donors are not transfer fund timely, financial report is not submit timely to the concerned body, performance report are not evaluated accordingly and internal auditors are not as per the universally accepted standards which result low financial performance of microfinance institutions of Ethiopia particularly Jimma Zone. As a result, financial reporting and analysis have significant effect on financial performance of Microfinance institutions.

Response of Financial Performance of Micro-finance institutions:

Providing financial services to the excluded part of the population is an important developmental tool. It helps in creating employment and increases the income and consumption of this segment and would, in the final analysis, reduce poverty and contribute to the implementations of country's ambitious plan of growth and transformation plan. There has been a progressive transition in Ethiopian MFIs from micro credit to micro-finance and finally to financial inclusion (Amha and Kifle, 2015).

The study shows that financial performance of Micro-finance institutions of Ethiopia particularly Jimma Zone is highly depend on elements of financial management practices such as cash management, Account receivables, Budget management, Internal control systems, Source of fund, Accounting information systems and Financial reporting and analysis. Means elements of financial management practices have significant effect on financial performance of micro-finance institutions. If financial management practices are done accordingly, then financial performance of micro-finance institutions surely improved or MFIs score good result in their financial performance. Based on the study Micro-finance institutions will score good status in financial performance if the following elements are answered by them;

- Highly match with donor's requirements
- If internal control systems is strong in financial management practices
- If practice of the internal Auditors of the MFIs, is as per the universally accepted standards and use computerized or banking systems in their daily activities.

Generally, by doing so, financial performance of Micro-finance institutions will improve their status as much as possible.

5.2. Conclusions

Based on the major findings, the following conclusions were drawn:

The study concludes that financial management practices (cash management practices, Account receivables management practices, Budget management practices, Internal control system practices, source of finance, Accounting information systems, and financial Reporting and analysis practices) are major determinants of the financial performance of MFIs in Ethiopia. MFIs play an important role in Ethiopian Economy. Inefficiencies in financial management results poor financial performance and eventually lead to failure of MFIs. A high rate failure of MFIs has adverse effects on the economy therefore; they need for sound financial management practices among Ethiopian MFIs particularly Jimma Zone. The implementation of financial management practices provide opportunities for the institution to react to the different challenges within its operating environment. Thus MFIs should embrace strong financial management systems.

Modernization is the key to the growth of financial performance of MFIs and effort should be made to ensure MFIs are in advance guard of novelty for them to be competitive through improvement of financial management practices through ICT (by changing their manual systems to the banking systems). The ever changing needs of customers once met will increase customer withholding and sustainable growth rate. MFIs should also be confident to colleague due to the high involvement in technology in order to collect full benefits of technology. Since we are in 21^{st} century MFIs should also be encouraged to expand their services and move from the traditional practice of using manual into banking systems (computerized systems). In short, the study concludes:

- The financial statements preparation were not as per the financial management standards for statement for financial position, Statement of Activities, Statement of Functional Expenses and Statement of Cash Flow to indicate the finical position as whole.
- Lack of participation in budget proposal review by financial staff and lack of cash forecast preparation which may brings about difficulties in having appropriate budget amount calculation and cash need proposals.

- Lack of board activities in budget approval and monitoring, for which board activities in institution leadership, authorization of annual budget and monitoring the implementation of activities are the most important ones for successful achievement of planned activities.
- The existence of delay in fund transfer to the institution implementing partner has negative effects on activities implementation timely.
- There are gaps on timely financial reports submission and availing of the monthly financial statement, thus delay for financial reports submission leads to delay of fund transfers from the donors and it also affects the activities implementation.

In general, Cash management practices, Account Receivable practices, Budget management practices, Internal control practices, Source of finance, Accounting Information systems, and financial reporting and analysis practices have significant effect on financial performance of MFIs in Ethiopia, particularly Jimma Zone.

5.3. Recommendations

Based on the findings of the research, the researcher has recommended certain points what thought to be very critical if considered and implemented by the microfinance institutions accordingly and properly. As a result, the following recommendations have been given.

- Since head office have recruit power, MFIs is advised to recruit (qualified) trained man power for the institutions.

- The MFIs managers and policy makers should give high concern about loan appraisal to minimize default risk and follow-up is necessary in their activities.
- Further, MFIs should be advised to reinforce and put up policies regarding debtors on how to collect receivables, be able to know when to write off bad debts by giving training and follow-up, so as to reduce losses that accumulate as a result of default risk.
- For having better internal control system, it is required budget authorization and monitoring by the board and effective board provides a basis for successful management of its institutions.
- Cash forecast preparation is highly important for smooth implementation of activities as planned and its document is also required for availing the required cash for activities implementation. Thus it is required to avoid institution activities implementation delay due to shortage of cash at the right time.
- Boards' involvement and decision in institutional management; auditing and audit report reviewing issues is vital.
- Board should monitor financial management system of the institutions and institution shall develop well organized financial management policies and ensure application of the established policies and procedures by their schedules.
- The association of Ethiopian MFIs and donors should give capacity building training and transfer funds as per the original plan for MFIs employees' respectively to access financing that can enable them to run their institutions at a logical cost of financing.
- Financial professionals should sensitive the MFIs employers on the relevance of bookkeeping, financial reporting and analysis as well maintaining proper books of analysis
- MFIs should implement segregation of duties and responsibilities accordingly.

For Future Research Direction:

The current study was based on small sample size taken from only three MFIs found in Jimma Zone of Oromia region. Therefore, the results cannot be universal to other Zones of Oromia particularly in the analytical terms. Further researcher done on a bigger scale with large sample size could shed light on how financial management practices activities affect the average financial performance of MFIs in Oromia Region, analytically.

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APPENDIX A

JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Dear respondent;

This questionnaire is prepared by post graduate students of Jimma University, College of Business and Economics, Dep't of Accounting and Finance in order to undertake Masters of Science degree in Accounting and finance. The questionnaire is designed to identify the major community problems of the Country, particularly Jimma Zone and to solve the most series problem, under the title of **"The effect of financial management practices on financial performance of MFIs".** The information is collected purely for academic purpose and has no claim with any governmental or non-governmental organization. And your personal information will be kept confidentially. Therefore, you are kindly requested to give us a genuine answer for the following questions. If you have any question and comments use the following address; if you have any questions please contact:

Name: Danbobi Note; **Email:**danbobi.note@gmail.com ; **Mobile:** 0912968997

Thank you in advance for your Cooperation!

PART I: Demographic Characteristics of the Respondents

1. Gender: 1) ☐ Female 2) ☐ Male
2. Age: 1) ☐ 18- 28 years 2) ☐ 29-38 years 3) ☐ 39-49 years 4) ☐ 50 and above years
3. Educational background:1) ☐ certificate

2) Diploma ☐

3) Degree ☐

4) Masters and above ☐

4. Working experience: 1) ☐ 1 – 5 years

2) ☐ 6 – 10 years

3) ☐ 11and above years

PART II: Business Related Questions (Business Profile)

1. Customers A) ☐ Individuals B) ☐ Institutions C) ☐ Organizations D) ☐ all
2. Branches in Jimma Zone A) ☐ 1 to 2 B) ☐ 3 to 4 C) ☐ 5 and above

PART III: Profit and Human resource for the period 2010-2013

Sr. No	Year	**2010**	**2011**	**2012**	**2013**
1	Profit (in Millions)				
2	Staff/Human resources				

PART IV: Cash management Related Questions; N.B 1= strongly disagree 2= Disagree 3= Neutral 4= Agree 5= strongly agree

Sr. No	**Questions**	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
1.	Institution provides cash receipts to clients					
2.	Institution makes cash flow projections?					
3.	Institution makes every day cash reconciliation					
4.	Institution uphold a cash operating limit					
5.	institution have a permanent teller					

PART V: Accounts receivable management and record keeping practices related Questions; N.B 1= strongly disagree 2= Disagree 3= Neutral 4= Agree 5= strongly agree

Sr. No.	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1.	Institution provide long term loans					
2.	Institution prepare an aging schedule for loans					
3.	Institution have a credit rule and regulation					
4.	Institution use computer software in managing receivables					
5.	Institution has written policies and guide lines sufficiently indicating the procedures and process for accounting of revenues and application for funds					
6.	Financial management system of the institution is in line with donors requirement					
7.	Donors provide training on financial management practices					

PART VI: Budget management practice Related Questions; N.B 1= strongly disagree 2= Disagree 3= Neutral 4= Agree 5= strongly agree

Sr. No.	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	Cash forecast is always prepared for each accounting period and planned well					
2	Boards are officially participating in annual budget of the institution					
3	Budget monitoring report is done at the end of every month and provided to managers to see actual expenses and performance against budget and activities planned					
4	There are occasions that the institution does not perform a very good result on the planned time due to delay of fund transfer from the donor					

PART VII: Internal Control Related Questions; N.B 1= strongly disagree 2= Disagree 3= Neutral 4= Agree 5= strongly agree

Sr. No.	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	The finance staff is sufficient in number and qualification to perform the financial management of the institutions					
2	There are job descriptions which clearly clarify financial management roles and responsibilities					
3	An institution ensures segregation of duties and responsibilities					

4	Board meets regularly and have scheduled					
5	Finance staff is involved in the annual budget preparation process					
6	Segregation of duties is implemented within the institution accordingly					

PART VIII: Source of Finance Related Questions; N.B: 1= Yes 2=No

Sr. No.		**Yes (%)**	**No (%)**
1	Internally generated cash source		
2	Borrowed funds only		
3	Donors		
4	Grants		
5	Internally generated cash and borrowed funds		

PART IX: Accounting Information System Related Questions; N.B: 1= Yes 2=No

Sr. No.		**Yes (%)**	**No (%)**
1	Does the institution have a formal accounting system?		
2	Is the accountant responsible to recording all transactions?		
3	Is there an operating accounting department?		
4	Does the institution use computer software in recording transactions?		

PART X: Financial reporting and analysis Related Questions; N.B 1= strongly disagree 2= Disagree 3= Neutral 4= Agree 5= strongly agree

Sr. No.	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	Donors transfer fund timely as per the original plan					
2	There are occasions that the institutions external audit report is qualified					
3	Financial report is submitted to the concerned body timely					
4	The activities performance reports are analyzed and measured against budget allocated					
5	Do you think that internal Auditors of the MFIs follow as per the universally accepted standards					
6	Institution is at a very good status I financial performance					
7	Do you think that internal control system of MFIs in Jimma Zone is strong					

PART XI: General performance Related Questions; N.B: Good =0 Bad =1

Sr. No.		Good (%)	Bad (%)
1	Financial performance of the institutions is		

PART XII: General Interviews Questions for Managers

1. Do you think there are factors that affect financial performance of Micro finance institution A) Yes ☐ B) ☐ No
2. If "yes" which factors are mainly affect it
   - ☐ Political change
   - ☐ Corruption
   - ☐ Poor planning s
   - ☐ Poor leadership ability
   - ☐ Poor governance
   - ☐ Default Risk
   - ☐ All
3. What do you think about the Solutions?

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____

____

4. In your institutions what challenges do you face frequently?

A) ☐ Default Risk B) ☐ Corruption C) ☐ Change of donor's rules and regulations D) ☐ Scarce of funds E) ☐ Delay of funds transfer

5. What do you think about the solutions?

____

____

____

6. What are the areas to be improved in the financial management practices of the MFIs in Jimma Zone?

____

IBSA DABALATAA A:

YUUNIVERSIITII JIMMAA

FAAKAALIITII DALDALAA FI IKKOONOOMIKSII

MUUMMEE ACCOUNTING FI FINANCE

Hirmaattottaaf;

Gaafiin armaan gadii ka qopheesse barataa yuuniversiitii Jimmaa kan digrii lammaffaa baratu, muummee accounting fi finance ta'e dha. Gaafiin kan bu'uura godhate rakkoolee hawaasa keessa jiran furu'uuf keessattuu Godina Jimmaa mat-duree **'The effect of financial management practices on financial performance of MFIs"** jalatti dha. Deebii kan isinirraa fudhannu haala baruufi barsiisuu qofaaf oola. Kanaafuu deebii haqa-qabeessa akka nuuf kennitan kabajaan isin gaafanna.

Yo gaafii qabaattan teessoo armaan gadiitiin nu qunnnamuu dandeessu

Maqaa: Danboobii Notee: **Email** danbobi.note@gmail.com:**Bilbilaa:** 0912968997

KUTAA I: Haala socio-demographic hirmaatttotaa

1. Saala: 1) ☐ Dhalaa 2) ☐ Dhiira
2. Umrii: 1) ☐ 18- 28 2) ☐ 29-38 3) ☐ 39-49 4) ☐ 50 fi isaa ol
3. Sadarkaa barnootaa: 1) waraqaa ragaa ☐
   2) Dippooloomaa ☐
   3) Digrii ☐
   4) Digrii lammaffaa fi isaa ol ☐

4. Muuxannoo hojii: 1) ☐ 1 – 5
   2) ☐ 6 – 10
   3) ☐ 11fi isaa ol

KUTAA II: Gaafii daldalaa

3. Maamila A) ☐ Dhunfaa B) ☐ Dhaabbata C) ☐ Waldaa D) ☐ Hundaa
4. Damee Godina Jimmaa A) ☐ 1 hanga 2 B) ☐ 3 hanga 4 C) ☐ 5 fi isaa ol

KUTAA III: Bu’aa fi and Hunna namaa kan bara 2010-2013

Sr. No	Year	**2010**	**2011**	**2012**	**2013**
1	Bu’aa (Miliyoonaan)				
2	Hojjattota				

KUTAA IV: Gaafii bulchiinsa Kaashii; Hub. 1= akkamalee morma 2= Nimorma 3= nan laallatu 4= woliigala 5= akkamalee woliigala

Sr. No	**Gaaffilee**	**akkamalee morma**	**nimorma**	**Nanlaallatu**	**woliigala**	**akkamalee woliigala**
7.	Dhabbanni keenya nagahee mamiltootaaf ni kenna					
8.	Dhaabbanni keenya cash flow projections ni hojjata?					
9.	Guyyaa hunda baasii galii ni madaalla					
10.	Dhaabbanni keenya daangaa qarshii ni qaba					
11.	Dhaabbanni keenya teller dhaabbataa ni qaba					

KUTAAV: Gaafii bulchiinsa Accounts receivable and eegumsa galme'ee; Hub. 1= akkamalee morma 2= Nimorma 3= nan laallatu 4= woliigala 5= akkamalee woliigala

Lakk.	**Gaaffilee**	**akkamalee morma**	**nimorma**	**Nanlaal latu**	**woliigala**	**akkamalee woliigala**
8.	Liqii yeroo dheeraa ni kennina					
9.	Sagantaa liqii deebisan ni qanna					
10.	Seera fi heera liqii ni qanna					
11.	Account receivables too'achuudhaaf kompuuteratti ni fayyadamna					
12.	Poolisii fi bulchiinsa gahaa kan adeemsa galii fi baasii ni qabna					
13.	Bulchiinsi faaynaanshalii keenyaa worra ulaagaa arjooman waliin wal simata					
14.	Worri nuuf arjooman leenjii bulchiinsa faayinaansii nuuf laaatu					

KUTAA VI: Gaafii bulchinsa baajataa; Hub. 1= akkamalee morma 2= Nimorma 3= nan laallatu 4= woliigala 5= akkamalee woliigala

Lakk.	Gaaffilee	akkamalee morma	Nimorma	Nanlaallatu	woliigala	akkamalee woliigala
1	Tilmaamaa fi karoori kaashii kurmaana hundaa ni qophaawa					
2	Boordiin baajataa woggaa irratti ni hirmaata					
3	Too'annaa fi karoorri baajata kurmaana hunda ni qophaawa					
4	Sababa turuu baajataatiin Yeroon dhaabbanni keenya sadarkaa gaarii hin galmeessin ni jira					

KUTAA VII: Gaafii Internal Control; Hub. 1= akkamalee morma 2= Nimorma 3= nan laallatu 4= woliigala 5= akkamalee woliigala

Lakk.	Gaaffilee	akkamalee morma	nimorma	Nanlaallatu	woliigala	akkamalee woliigala
1	Hojjattootni teenya tan faayinaansii bulchiinsa faayinaansii hojjachuuf baay'innaa fi ga'umsa ni qabu					
2	Qoqqoodamni hojii sirritti jira					
3	Dhaabbanni keenya qoqqoodama hujii sirritti hojiirra oolcha					
4	Boordiin wolgahii idilee ni qabu					
5	Hojjattootni faayinaansii qophii baajata woggaa keessatti ni hirmaatu					
6	Qoqqoodamni hojii akkuma jiruun hojiirra oola					

KUTAA VIII: Gaafii Madda Galii ; Hub: 1= Eeyyee 2=Lakkii

Lakk.	**Gaaffilee**	**Eeyyee(%)**	**Lakkii (%)**
1	Madda Galii keessaa		
2	Liqii qofa		
3	Arjooma		
4	Gargaarsa		
5	Madda galii keessaa fi liqaa		

KUTAA IX: Gaafii Accounting Information System; N.B: 1= Eeyyee 2=Lakkii

Sr. No.		**Eeyyee (%)**	**Lakkii (%)**
1	Dhaabbanni keenya haala accounting ni qaba		
2	Akkaawuntaantonni waan galmeessaniifi ittigaafatamummaa ni fudhatu		
3	Muummeen operating accounting jiraa?		
4	Dhaabbanni keessan wa galmeessuuf kompuuteratti ni fayyadamaa		

KUTAA X: Gaafii Financial reporting and analysis; Hub. 1= akkamalee morma 2= Nimorma 3= nan laallatu 4= woliigala 5= akkamalee woliigala

Lakk.	**Gaaffilee**	**akkamalee morma**	**nimorma**	**Nanlaallatu**	**woliigala**	**akkamalee woliigala**
1	Arjoomtonni akkuma karoora isaanii qarshii yeroo dhaan nuu dabarsu					
2	Yeroon gabaasi odiitara alaa beekkamtii argatu ni jira					
3	Gabaasi faayinaansii yeroodhaaan qaama dhimmi ilaalu dhaqqaba					

4	Gabaasi raawwii hojii yeroodhaan ni gabaafama					
5	Odiitari keessaa seera idil-adunyaa ni hordofa jettee yaaddaa?					
6	Dhaabbati keenna raawwiidhaan sadarkaa baay'ee gaarii ta'e irra jira					
7	Haalli too'annaa keessaa kan Godina Jimmaa cimaa jettee yaaddaa?					

KUTAA XI: Gaafii woliigala raawii; Hub: Gaarii =0 Badaa =1

Sr. No.		**Gaarii (%)**	**Badaa (%)**
1	Raawiin faayinaansii dhaabbata keessanii		

KUTAA XII: Af-gaafii wolii gala Managerootaaf

1. Wanti raawwii faayinaansii miidhu jira jettee yaaddaa? A) ☐ Eeyyee B)☐ Lakkii
2. "Eeyyee" yo jette kamtu irracaalatti miidha which factors are mainly affect it
   - ☐ Jijjiiramaa siyaas'aa
   - ☐ Malaamaltummaa
   - ☐ Hanqinna karooraa
   - ☐ Hanqinna dandeettii bulchiinsaa
   - ☐ Bulchiinsa dadhabaa
   - ☐ Rakkoo liqii deebisuu dadhabuu
   - ☐ Hundinuu ni miidhu
3. Furmaanni maal jettee yaadda?

4. Yerroo baay'ee rakkinni dhaabbata keessan qunnamu kam?

A) ☐ Rakkoo liqii deebisuu dadhabuu B) ☐ Malaamaltummaa C) ☐ Jijjiramuu seera arjoomtotaa D) ☐ Hanqina baajataa E) ☐ Turuu baajataa

5. Furmaati maal jettee yaadda?

6. Godina Jimmaa bulchiinsa faayinaansii ilaalchisee naannoon fooyya'uu qaba jettee yaaddu kam?