International Journal of Trade & Commerce-IIARTC
July-December 2017, Volume 6, No. 2 pp. 642-651

UGC Approved Journal in Social Science Category; Journal No. 48636
COSMOS (Germany) JIF: 5.135; ISRA JIF: 4.816; NAAS Rating 3.55; ISI JIF: 3.721

Financial Inclusion through Micro Finance: Jimma - Ethiopia

Danbobi Note Dido

Faculty of Accounting and Finance, Bule Hora University, BuleHora City Ethiopia (East Africa)
Email Id: danbobi.note@gmail.com

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.*

PAPER/ARTICLE INFO
RECEIVED ON: 15/09/2017
ACCEPTED ON: 05/11/2017

Reference to this paper should be made as follows:

Danbobi Note Dido (2017), "Financial Inclusion Through Micro Finance: Jimma - Ethiopia", *Int. J. of Trade and Commerce-IIARTC*, Vol. 6, No. 2, pp. 642-651

*Corresponding Author

1. INTRODUCTION

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, & 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 to specific people but it is understood as a means of 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 nation-wide action in Ethiopia. In Ethiopia, micro finance involvement is 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 micro-finance 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 into 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.

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, 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 in efficient in financial management practices **(Yenesaw, 2014)**. The reasons that initiate the researcher were that there was a lack of empirical evidence from less developed 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 addressed. Therefore, the outcome of the research would help to fill the existed gap.

3. HYPOTHESES

- **H01:** Cash management practices have impact on financial performance of MFIs in Jimma Zone
- **H2:** Account Receivables practices have impact on financial performance of MFIs in Jimma Zone
- **H3:** Budget management practices have impact on financial performance of MFIs in Jimma Zone
- **H4:** Internal Control practices have impact on financial performance of MFIs in Jimma Zone
- **H5:** Source of finance has impact on financial performance of MFIs in Jimma Zone
- **H6:** Accounting information systems have impact on financial performance of MFIs in Jimma Zone
- **H7:** Financial reporting and analysis practices have impact on financial performance of MFIs in Jimma Zone

4. OBJECTIVE OF THE STUDY

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.

4.2 Specific Objectives

- To determine whether cash management practices have significant effect on financial performance of MFIs
- To determine whether Account receivables practices have significant effect on financial performance of MFIs
- To assess whether budget management practices have significant effect on financial performance of MFIs
- To determine whether internal control practices have significant effect on financial performance of MFIs
- To assess whether source of finance management practices have significant effect on financial performance of MFIs

- To assess whether Accounting information practices system management have significant effect on financial performance of MFIs
- To determine whether financial reporting and analysis practices have significant effect on financial performance of MFIs

5. 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. In line with this, explanatory research tests the theoretically established relationship between variables using secondary data. 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 Micro-finance 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)**.

6. RESULTS, DISCUSSIONS, SUMMARIES AND MAIN FINDINGS

It 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), and finally presentation of secondary data by descriptive analysis and discussion of results is the major task that has been under-taken in this study.

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 few studies arguing that financial management practice have effect on financial performance of MFIs in economically, politically and socially, whereas other writers caution against such optimism and point to the negative effects that micro-finance 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: This paper reports on a 66 respondents of OCSSCO, Harbu, and Eshet MFI Share Company respectively under the title of the effect of financial management practices on financial performance of MFIs found in Jimma Zone. The purpose of the study is to assess the effect of financial management practices on financial performance of MFIs in Jimma Zone. 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. The analysis of the assessment at the employers hold level were by using descriptive analysis and Descriptive and inferential statistics were used to analyze the data (chi –square test) of independence based on independent variables.
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. Inefficiency in financial management practices results poor financial performance of the institutions. Therefore, trained man power is essential to improve financial practices in their day to day activities which result good financial performance.
Cash Management practices: Since cash management have 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 backbone 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 having significant effect financial performance of Microfinance institution of Ethiopia particularly Jimma Zone. The financial management of these institution is not in line with donors requirements, institution are

not using computer efficiently and donors are not provides training. These are the critical areas of Microfinance institutions to be proved.

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 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 practices 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 free from 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 transformation and developmental. 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.

7. CONCLUSIONS

Based on the major findings, the following conclusions has been 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 21st 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.

8. 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.

REFERENCES

[1]. **Alemayehu, Y. (2008),** The performance of Micro Finance Institutions in Ethiopia: A case of six microfinance institutions, M.Sc. Thesis, Addis Ababa University, Ethiopia

[2]. **Amaha, W. and Kifle, A. (2015),** Association of Ethiopian microfinance institution Performance analysis Report, AEMFI, Addis Ababa, Ethiopia.

[3]. **Consultative Group to Assist the Poorest (CGAP) (2000*):*** Empowerment Case Studies*:* Indian Institute of Management and Magüi Moreno Torres and Parameter Kananga at the World Bank

[4]. **Karunananda A. and Jayamaha A. (2011),** Financial Practices and Performance of Small and Medium - sized Enterprises in Sri Lanka

[5]. **Kilonzo Jennifer M., Ouma Dennis(2015),** Financial Management Practices on growth of Small and Medium Enterprises: A case of Manufacturing Enterprises in Nairobi County, Kenya Jomo Kenyatta University of Agriculture and Technology Kenya

[6]. **Kwame B., (2010),** Financial Management Practices of Small Firms in Ghana: An Empirical Study

[7]. **Mersha, D. and Prof. Rao D.P. (2009),** Effect of Financial Management Practices and Characteristics on Profitability: A Study on Business Enterprises in Jimma Town, Ethiopia, Jimma University.

[8]. **Muriu, P. (2011),** Microfinance Profitability: What explains the low profitability of African microfinance's? Ph.D. Thesis, Birmingham Business School, University of Birmingham

[9]. **Yenesaw, A., (2015),** Determinants of Financial Performance: A Study on Selected Microfinance Institutions in Ethiopia, Jimma University.