Innovations

Empirical analysis through financial ratios that factors affecting financial performance of microfinance institutions: evidence from Omo microfinance Sodo District, South Ethiopia

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Abstract
Microfinance is a smooth financial system that provides financial services such as loans, savings, money transfers, insurance, and payment to economically low-class people. Microfinance institutions (MFIs) endeavor to achieve two basic objectives, ensuring the financial sustainability of the organization and accessing financial services to a massive number of poor people. Many MFIs face the challenge of maintaining financial sustainability and that also hinders them from achieving another objective, excelling social outreach. Therefore, this study aimed to examine factors of financial performance of MFIs, particularly Omo Microfinance institution (OMFI) Sodo District. The study employed a quantitative research approach and collected time serious secondary data from OMFI Sodo District for the period of 2015-2019. Collected data were analyzed in descriptive and inferential statistics by using multiple linear regression models and SPSS version 24. Return on asset (ROA) was selected to be proxy for the dependent variable, financial performance of MFIs, and net interest margin (NIM), loan loss provision (LLP), non-performing loan (NPL), leverage ratio (LR), and microfinance liquidity ratio (MLR) were selected as predicting variables. The study found that out of 5 explanatory variables included in the regression model, 4 variables were found to be statistically significantly affected ROA. LR and MLR influenced ROA positively and statistically significantly while LLP and NPL have a negative and significant effect on ROA. NIM has a positive relationship with ROA, but its relation was not statistically significant. The regression model revealed that approximately 97 percent of the variation of ROA was explained by the explanatory variables included in the model. Therefore, the study recommended that MFIs need to pay considerable attention to these variables to fix the problem, establish a strong financial management system, and maintain sustainable financial performance.

Keywords: 1.*Ethiopia, 2.Financial Performance, 3.Financial ratio, 4.Microfinance, 5. OMo*

1. Introduction

These days microfinance has become a significant tool to fight poverty, increase financial inclusion and literacy, promote entrepreneurs' vision, and to bring development to poorer countries. The major activities of microfinance institutions (MFIs) are accessing loans, mobilizing savings, providing financial literacy, facilitating medium insurance services, and conducting payment services. All MFIs' services are focusing on poor people. But MFIs face different challenges while serving poor people. Insufficient revolving funds, low repayment rate of previously disbursed loan, and inadequate profitability are among the major challenges of

the MFIs. Different research works have been carried out to solve these challenges, but poor financial profitability did not get adequate study particularly in south Ethiopia. Therefore, this study focused on finding out determinant factors of financial performance of MFIs by employing financial ratio measures. The other section of this paper organized problem statement, objective of the study, significance of the study, literature review, methodology, research finding and discussion, and recommendation.

1.1 Statement of the Problem

The basic objectives of MFIs are to be financially sustainable and reach a considerable number of poor people who are neglected by formal banking sectors. Since the target groups of MFIs are poor people and the credit methodology is without sufficient collateral, maintaining strong financial sustainability needs critical knowledge and an effective management system. Due to its challenging landscape, MFIs gain low net earnings after deducting administrative, operational, and financial costs (Kipesha, 2013; Mersland & Øystein Strøm, 2012). The low earning capacity impacts the extent of social outreach performance negatively. Therefore, succeeding financial performance becomes a prerequisite for expanding social performance.

Recently in Ethiopia, the MFIs have been generating on average a negative return on assets (Yenesew & Kumar, 2018). Similarly, Omo microfinance institution (OMFI) Sodo District which is operating in Wolaita zone and Konta Special Woreda, south Ethiopia, through its 20 branch offices has been experiencing low earnings. Though few pieces of research have been conducted regarding microfinance activities in Ethiopia, so far, to the best of researcher knowledge and belief, there is no empirical research related to determinants of financial sustainability that measured through financial ratios. Thus, this study aimed to find out factors of financial sustainability of MFIs through financial ratio measures.

Objective of the study

The primary objective of the study was examining factors of financial performance of MFIs particularly OMFI Sodo District,

1.2 significance of the study

The study's importance emerges from the fact that the significant role of MFIs by serving an increasing number of poor people to alleviate poverty and contribute to economic development in developing countries, particularly Ethiopia. Therefore, this study will benefit MFIs, to identify and manage specific determinants of financial performance. Moreover, the findings of the study bridge the existing literature gap and will be based on the next study.

2. Literature review

This study aimed to establish the determinants of financial performance of MFIs, particularly OMFI Sodo District through financial ratios. Regarding this objective, related literature has been reviewed to gain deep knowledge of the area and to find out the research gap.

Several research works have been done regarding different dimensions of microfinance activities. Particularly, in Ethiopia, some researchers (Gebrehiwot & Chawla, 2016, Hasan & Batra, 2018, Yenesew & Kumar, 2018, and Abebe, 2019) devoted to analyzing microfinance performance by employing different indicators. However, this study aimed to analyze microfinance performance by using financial ratios. Some researchers conducted the study by using financial ratios in other financial institutions such as banking industries, insurance institutions, and the microfinance industries in different countries.

Among a few research works an empirical study conducted by (Akter & Roy, 2017) to analyze "the impact of the nonperforming loan on profitability: an empirical study on the banking of Dhaka stock exchange" reported that interest margin influences financial performance positively and significantly. Therefore, this study hypothesized as:

H1: There is a significant and positive relationship between net interest margin and financial performance of OMFI Sodo District.

This hypothesis was because as the rate of net interest margin (the ratio between the lending rate and borrowing rate of MFIs) increases, income from loans released to customer increase.

The study of Teshome et al. (2018) conducted an empirical analysis to find out "determinant of financial performance of Commercial banks in Ethiopia: special emphasis on private commercial banks" by collecting panel data of years for the period of 2007 to 2016. The study employed correlation and multiple linear regressions; moreover, the random effect model and E Views 9 software were used to analyze the data. The findings revealed that capital adequacy ratio, bank size, credit interest ratio, and size of the bank have a positive and statistically significant effect on the financial performance of banks. On other hand, nonperforming loans, loan loss provision, Leverage Ratio, and operation cost efficiency are negatively and statistically significantly affecting the financial performance of banks. Based on literature the following hypothesis was developed.

H2: There is a significant and negative relationship between loan loss provision and the financial performance of OMFI Sodo District.

The logic behind this hypothesis was the higher the loan loss provision the higher the non-operating expense, so this jeopardizes the financial sustainability of MFIs. The empirical analysis conducted on the topic of "Does the portfolio quality influence financial sustainability? A case of MFIs in Kenya" by (Bitok et al., 2019) reported that portfolio quality has a positive significant effect on financial sustainability. Similarly, nonperforming loans or portfolios at risk correlate with financial performance negatively (Khan et al., 2017; Tehulu, 2013; and Teshome et al., 2018). Therefore, this study expected the negative impact of the explanatory variables on financial performance in the study area and formulated the following *hypothesis.*

H3: NPL has a negative and significant effect on the financial performance of OMFI Sodo District.

This was to investigate the worst scenario of a non-performing loan (the loan and advance on arrears more than 90 days (about 3 months)) on the financial performance of MFIs. The study of (Butsili & Miroga, 2018), conducted on microfinance banks found leverage ratio influences the financial performance of the institution positively and significantly. On other hand, the empirical research of (Teshome et al., 2018) and the study conducted by (Tehulu, 2013) to establish "determinants of financial sustainability of MFIs in east Africa" reported leverage ratio has a negative and statistically significant effect on financial performance. Therefore, this study hypothesized that:

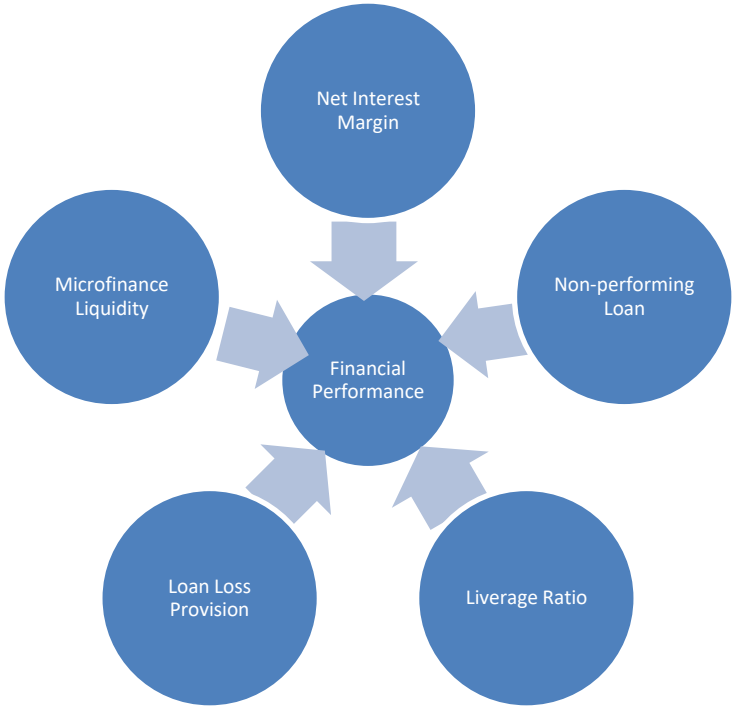
H4: There is a significant and negative relationship between leverage ratio and the financial performance of OMFI Sodo District.

(Almajali et al., 2012) in their study titled "Factors Affecting the Financial Performance of Jordanian Insurance Companies Listed at Amman Stock Exchange" reported liquidity has positive and statistically significant effects on the financial performance of the organization. Based on this evidence this research work hypothesized:

H5: There is a significant and positive relationship between the microfinance liquidity ratio and the financial performance of OMFI Sodo District.

The justification behind this hypothesis was maintaining the higher ratio of microfinance liquidity, sufficient current asset over current liability enables the MFIs to meet current operational demand that can generate revenue and so as for overall ROA increase.

2.1 Conceptual Framework



Source: Own design constructed from literature review

3. Methodology

The aim of this study was to find out determinants of the financial performance of OMFI Sodo District.
The quantitative research approach with a descriptive, description of the situation as it exists at present and analytical research, determines cause and effect by testing specific hypotheses and examines relationship was used to analyze determinants of financial performance of MFIs.
OMF Sodo District, which is located at Wolaita Zone, South Ethiopia, operating in the entire Wolaita zone and Konta Special woreda with its 20 branch offices, was selected as the target population. To obtain sufficient and representative data branches which were in operation for more than 10 years and submitted both financial and operational reports of the past five years (2015-2019) were selected. According to these criteria five branches namely Sodozuria, Damote Gale, Damota, Kindo Didaye, and Humbo branches were chosen as a sample for this study. The secondary data of five years were collected from audited annual reports of the organization.

3.1 Variable Definitions & Measurement

Dependent Variable

1. **Return on Asset (ROA):** is defined as a proxy for the financial performance of MFIs and this ratio is calculated by dividing net profit after tax by total assets. Independent Variables.
2. **Net Interest Margin (NIM):** it is the ratio between the lending rate and the borrowing rate of MFIs.
3. **Loan Loss Provision to Non-Performing Loan Ratio (LLP):** provision for loan loss account is maintained to provision expense in income statement account to absorb potential losses in loans and advance portfolio. This is measured by dividing loan loss provision into non-performing loans.

4. **Non-Performing Loan Ratio (NPL):** It refers to the absolute amount of loans or advances with pre-scheduled repayment programs that are non-performing when the principal and/or interest is due and uncollected for 90 (ninety) consecutive days or more beyond the scheduled maturity date. It can be measured by dividing non-performing loans over total loans and advances.
5. **Leverage Ratio (LR):** it indicates the level of debt held by a firm to maintain the total equity of the organization. Mathematically it can be calculated as; Total liability divided by total assets.
6. **Microfinance Liquidity Ratios (MLR):** this is also known as the current ratio. It is the ability of a firm to meet its current or short-term obligations from current assets. It is calculated by dividing current assets by current liabilities.

3.2 The Multiple Leaner Regression Model and its Specification

$Y = \beta 0 + \beta 1Xit + \beta 2Xiit + \beta 3Xiiit + \beta_4 Xivt + \beta_5 Xvit + \varepsilon$

Where: Y is the dependent variable; microfinance financial performance which was applied by return on asset (ROA). β0 is the regression constant. β_1, β_2 … β_5 are the coefficients of independent variables. X_{it} , X_{iit} - X_{vit} are independent variables for branch 'i' time 't' and

'ε' is the error term.

$$ROA = \beta 0 + \beta 1(NIM) + \beta 2(LLP) + \beta 3(NPL) + \beta 4(LR) + \beta 5 (MLR) + \varepsilon$$

4. Results and discussion

4.1. Introduction

As indicated in the previous sections, the main attempt of this study was to analyze the determinants of financial performances of OMFI Sodo District. The first part of this section deals with descriptive statistics of the finding, and the next one focuses on econometric analysis.

4.2 Descriptive Statistics

As table (4.1) presents, the minimum and maximum percent of ROA were 1 percent and 15 percent, respectively. The mean of return on assets was approximately 5.2 percent with a standard deviation of 3.7 percent. This implies that on average, every Ethiopian Birr (ETB) 1.00 of the value invested in an asset by the OMFI Sodo District generated ETB 0.05 of net profit during the study period.

Moreover, a net interest margin of the sampled branches ranged from 4 percent to 8 percent. The mean value of net the interest margin was 5.7 percent, and the standard deviation was 1.1 percent. The implication is on average OMFI Sodo District has earned 5.7 percent NIM after paying all financial costs during 2015-2019.

Loan loss provision was another factor of the financial performance of MFIs. Therefore, as table (4.1) result shows the mean value of LLP was 72.2 percent with the standard deviation of 24.3 percent. The minimum value of the loan loss provision ratio was 0.03 and the maximum ratio was 0.92. This signifies that some branches of Sodo District transferred 3 percent of NPL to LLP while others allotted 92 percent and on average 72.2 percent of NPL OMFI Sodo District moved to loan loss provision expense.

The other variable included in descriptive statistics was NPL. The result ranged between 1 to 38 percent. The average value of NPL was 24 percent and the standard deviation was 11.2 percent. The result tells us on average, from every ETB 1.00 of loan outstanding ETB 0.24 changed to be delinquent, uncollected loan for at least 90 consecutive days or more beyond the scheduled maturity date at OMFI Sodo District.

Leverage ratio was also another selected variable, and it has an average value of 12.4 percent which ranges from -36 percent to 54 percent and its standard deviation was approximately 17 percent. This indicates that on average, from every ETB 1.00 value of equity employed by OMFI Sodo District ETB 0.12 was maintained by debt in 2015-2019.

As (table 4.1) presented the minimum and maximum values of MLR were 1.33 and 4.16 respectively while the mean value was 2.7 with the standard deviation of 0.84. This implies OMFI Sodo District held an average value of ETB 2.7 current asset to every ETB 1.00 current liability during 2015-2019. This further indicates during the study period the Sodo District office has not fully lent amounts collected either from customer deposits or any other external source.

Table 4.1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	25	.01	.15	.0516	.03682
NIM	25	.04	.08	.0570	.01099
LLP	25	.03	.92	.7224	.24345
NPL	25	.01	.38	.2392	.11240
LR	25	-.36	.54	.1248	.16939
MLR	25	1.33	4.16	2.7176	.84461
Valid N (listwise)	25				

Source: own computation based on OMFI Sodo District Data

4.3. Empirical Results and Discussion

4.3.1 Checking assumptions: before conducting regression analysis basic assumptions must be met to draw conclusions about a population. Therefore, this study checked the following assumptions.

1. **Multicollinearity Test**

This study firstly tested the existence of multicollinearity among predicting variables. Multicollinearity means the presentation of the linear relationship between explanatory variables. The existence of multicollinearity between input variables leads to drawing the wrong conclusion. If the value of tolerance is less than 0.10 and variance inflation factor (VIF) is greater than 10 in the collinearity statistics indicates the existence of multicollinearity. Therefore, table (4.5) confirmed the absence of multicollinearity problem.

2. **Autocorrelation Test.**

Secondly, autocorrelation was also tested to detect the existence of the relationship between each value of errors in the regression model. Durban-Watson in SPSS is a valuable tool to test autocorrelation. Its value ranges between 0 to 4, and the value 2 or approaches 2 indicates there is no series autocorrelation problem among error terms. As far as the SPSS result in the table (4.3) presents the value 1.8 which is closer to 2 the employed data were free from the autocorrelation problem.

3. **Test of Variable types**

To draw the right conclusion about the population, all predictor variables must be quantitative or categorical and the dependent variable must be quantitative or continuous (Field, 2009). Therefore, this study fulfilled the requirement since both outcome and predictor variables were quantitative (all variables were ratios).

4.3.2. Correlation Analysis

Correlation analysis determines the degree of relationship between two variables. Since the hypothesis employed in this study was directional, then the tests would be in one-tailed Pearson correlation. In this result, the correlation matrix in (table 4.2) presents the NIM and MLR were positively and significantly correlated with ROA at p (one-tailed) < .01. The indication is the increment in either NIM or MLR increases the ROA of the MFIs. On the other hand, there was a negative and statistically significant relationship between

LLP, NPL, & LR and ROA at a 1 percent significant level. This implies when LLP, NPL, or LR increases the ROA of MFIs decreases.

Table 4.2 Correlations

		1	2	3	4	5	6
1. ROA	Pearson Correlation	1					
2. NIM	Pearson Correlation	.671**	1				
3. LLP	Pearson Correlation	-.879**	-.516**	1			
4. NPL	Pearson Correlation	-.914**	-.644**	.719**	1		
5. LR	Pearson Correlation	-.677**	-.708**	.750**	.602**	1	
6. MLR	Pearson Correlation	.876**	.686**	-.656**	-.868**	-.637**	1

**. Correlation is significant at the 0.01 level (1-tailed).

Source: Regression output based on OMFI Sodo District Data

4.3.3 Regression Analysis

4.3.3.1. Summary of model

Regression analysis was conducted to predict an outcome variable (ROA) from explanatory variables (NIM, LLP, NPL, LR, and MLR). As table (4.3) presents the value of R^2 and adjusted R^2 are 0.968 and 0.960, respectively. The implication of the result of R^2 is all predicting variables selected for this model accounted for 96.8 percent variance on the outcome variable (ROA) the remaining approximately 3 percent of variation can be determined by other variables which were not included in this study. The adjusted R^2 tells us 96 percent variance would be accounted for if the model had been derived from the population in which the sample was taken. Thus, the results of the two values (R^2 and adjusted R^2) were almost equal implying the model was robust or model fit.

Table 4.3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.984[a]	.968	.960	.00741	1.813

Source: Regression output based on OMFI Sodo District Data

4.3.3.2 Analysis of variance (ANOVA)

ANOVA is used to examine the overall significance of the model. The overall significance of the model is important in establishing whether the model fits to give a true estimate of the variables. Since the ANOVA value of the survey resulted in (table 4.4) significant at p = .000 is less than the standard value of 0.05, so it can be concluded that the regression model was significant in giving a true estimate of the variables. In plain English, the significance of ANOVA indicates that the variation explained by the independent variables did not occur by chance and the R^2 is a true disposition of the model fit.

Table 4.4 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.031	5	.006	114.870	.000[b]
	Residual	.001	19	.000		
	Total	.033	24			

Source: Regression output based on OMFI Sodo District Data

4.3.3.3 Model parameters and Hypothesis Testing

Model parameters

The regression coefficient presents how independent variables are numerically related to the dependent variable. In the following table (4.5) the second column gives us the estimates for the beta value and the value of the individual contribution of each predictor to the model. This means the impact of a unit change of independent variables on the dependent variable.

In the methodology part the regression model for this study was formulated as follows.

$$ROA = \beta 0 + \beta 1(NIM) + \beta 2(LLP) + \beta 3(NPL) + \beta 4(LR) + \beta 5\ (MLR) + \varepsilon$$

If we substitute the beta value from the regression table (4.5) in the above equation, the model can be defined as

$$ROA = 0\ .07 + 0.45(NIM) - 0.08(LLP) - 0.1(NPL) + 0.04(LR) + 0.01(MLR) + \varepsilon$$

Table 4.5 Coefficients

Model		Un-standardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.070	.020		3.558	.002		
	Net Interest Margin	.454	.225	.135	2.014	.058	.373	2.682
	Loan Loss Provision	-.084	.011	-.553	-7.361	.000	.298	3.352
	Non-performing Loan	-.098	.030	-.298	-3.217	.005	.196	5.099
	Leverage Ratio	.042	.017	.195	2.524	.021	.284	3.523
	Micro. Liquidity Ratio	.012	.004	.285	3.219	.005	.215	4.661

a. Dependent Variable: Return on Asset

Source: Regression output based on OMFI Sodo District Data

Hypothesis testing

The first hypothesis of the study was **H1: There is a significant and positive relationship between NIM and ROA of OMFI Sodo District.**

The regression result in the table (4.5) reported that there is a positive correlation between NIM and ROA but the relationship between them is not statistically significant. Even if the relationship between NIM and ROA is statistically insignificant, it has the largest coefficient value than other variables and still needs consideration.

The second basic variable selected after intensive literature review was LLP and it was previously hypothesized as.

H2: There is a significant and negative relationship between LLP and ROA of OMFI Sodo District.

The result of regression analysis confirmed the empirical literature reviews and the stated hypothesis by reporting the inverse relationship between LLP and ROA. Moreover, the result of a negative relationship between the two variables was statistically significant at a 1% significance level. The implication is when the LLP gets larger and larger loan loss expense on the income statement also increases and as result ROA decreases. The finding tells us if the effects of other predictors are held constant, a unit increase of LLP

decreases ROA by 0.08. This means ETB 1:00 increases in LLP decreases ROA by ETB 0.08. This finding is similar to the study of (Teshome et al., 2018)

The other most relevant variable included in the regression model to analyze the determinant factor of the financial performance of MFIs was NPL and initially it was hypothesized as.

H3: NPL has a significant negative effect on ROA of OMFI Sodo District.
As can be seen from table (4.5) the regression model has reported a negative coefficient that implies there is an inverse relationship between NPL and ROA. As previously hypothesized the relation between two variables presented statistically significant at a1 percent significant level. The reported coefficient in the table tells us an ETB 1 increase in NPL deteriorates ROA of MFI in the study area by ETB approximately 0.1. This finding was in line with the findings of (Khan et al., 2017; Tehulu, 2013; and Teshome et al., 2018).

The fourth hypothesis of the study was stated as **"H4: There is a significant and negative relationship between LR and the ROA OMI Sodo District."**

The expectation of inverse relationship between LR and ROA was to show when the ratio of LR increases the financial costs related to external sources also increase and it may decrease shareholders' earnings. However, the finding of the study was the opposite of the hypothesis. The regression model in table (4.5) presents a positive coefficient and statistically significant relation at a 1 percent significant level. The finding tells us when the portion of LR increases the lending capacity of MFIs also increases and then the higher the loan portfolio generates the higher the ROA. If all other predicting variables remain constant an ETB 1 increase of LR results ETB 0.04 increments on ROA of OMFI Sodo District. Even if the result opposed the earlier hypothesis similar finding was reported by (Butsili & Miroga, 2018).
After review of empirical literature, the study formulated the last hypothesis as.
H5: There is a positive and significant relationship between MLR and the ROA of OMFI Sodo District.
The finding of the regression analysis confirmed the hypothesis of the study, so the earlier alternative hypothesis can be accepted. The positive coefficient presented in the regression table justifies that MLR influences ROA positively and significantly at a 1 percent significant level. A unit increase in MLR raises ROA by 0.01 units if other determinants remain similar. This result supports the study finding of (Almajali et al., 2012).

5. Summary, conclusion and recommendation

5.1 Summary and Conclusion

The objective of the study was to find out the factors of financial performance of microfinance institutions through financial ratios. Evidence from OMFI Sodo District (South Ethiopia)
The study collected time-series data of the district within the span of 2015-2019 and analyzed using descriptive statistics and multiple regression models.
The descriptive part of the analysis found the minimum and maximum percent of ROA were 1 percent and 15 percent, respectively. The mean for ROA was approximately 5.2 percent with a standard deviation of 3.7 percent. This implies that on average, every Ethiopian Birr (ETB) 1.00 of the value invested in an asset by the OMFI Sodo District generated ETB 0.05 of net profit during the study period.
The NIM ranged from 4 percent to 8 percent. Moreover, the mean value of the net interest margin was 5.7 percent with the standard deviation of 1.1 percent. Furthermore, the mean value of LLP was 72.2 percent

with a standard deviation of 24.3 percent. The descriptive result of NPL ranged between 1 to 38 percent whereas, the average value of NPL was 24 percent and the standard deviation was 11.2 percent.
LR was also another selected variable, and its result lies between -36 percent to 54 percent and its standard deviation was approximately 17 percent. LR had an average value of 12.4 percent. As far as MLR is concerned, its value varied from 1.33 to 4.16 and its mean value presented 2.7 with a standard deviation of 0.84.
The study further conducted correlation analysis to find out the degree of relationship between two variables. In this result, the correlation matrix resulted that the NIM and MLR are positively and significantly correlated with ROA at p (one-tailed) < .01. On the other hand, there was a negative and statistically significant relationship between LLP, NPL, & LR and ROA at a 1 percent significant level.
In the end, the study carried out a regression analysis, and the regression model revealed that approximately 97 percent of the variation of ROA was explained by the explanatory variables included in the model. The statistical significance of model summary, the 97 percent variation was proved by ANOVA, which reported the p-value of 0.00 is less than 0.05.
As per the SPSS result, out of 5 explanatory variables included in the regression model, 4 variables were found to be statistically significantly affected ROA. In this regard, LR and MLR influenced ROA positively and statistically significantly while LLP and NPL have negatively and significantly determined ROA. NIM had a positive contribution to ROA, but its relation was not statistically significant.

5.2. Recommendations and Policy Implication

Based on empirical study findings the following recommendation has been given to the organization, policymakers, and further research.

- Leverage ratio was found to be a significant determinant of financial performance. Therefore, MFIs need to maintain an appropriate ratio of leverage in their capital composition as result they can generate sufficient revenue from the composition of total equity, and it can pay back their creditors as well as contributes for sustainable financial performance. The basic thing that should be considered here is maintaining an appropriate share of equity composition. Allocating excessive leverage composition on equity may lead to bankruptcy. On the contrary the too lower leverage ratio also holds back the institution from achieving higher financial performance.
- Microfinance liquidity ratio was also a significant determinant that has a direct relation with the financial performance of the MFIs. Therefore, it is recommended that the MFIs must formulate a clear and feasible policy on the way how to manage liquidity threshold along with regular operation.
- Since the result of loan loss provision was negative and significant, the MFIs working environment needs great attention to fill the gap that leads to result in loan loss provision, increasing rate of non-repayment of the disbursed loan. The higher the quality of the loan portfolio the lower provision of loan loss.
- The finding of non-performing loans requires strong loan portfolio management since extending loans to poor people is the major activity of MFIs and the likelihood of lending risk is sensitive.
- Even though the study result reported an insignificant impact of NIM on ROA, the relationship between them is still positive. Moreover, it is the predominant source of MFIs income. Thus, MFIs are recommended to increase net interest margin, the difference between lending interest rate and borrowing interest rate, to maintain sustainable financial performance.

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