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Financial Performance Analysis of Selected Ethiopian Micro-Finance Companies- A Camel Model Approach

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Abstract

The microfinance sector in Ethiopia is one of the fast growing sectors and considered as an integral part of the economy. Hence, monitoring, supervision and continuous performance evaluation of the microfinance institution sector is compulsory to ensure the financial stability of the economy since the banking sector is becoming more complex than before. The present study is an attempt to evaluate and compare the performance of the microfinance institution sector in Ethiopia. One of the most effective supervisory techniques, CAMELS rating system (basically a quantitative technique) has been used to rank the microfinance based on their performances. In this study, eighteen microfinance institutions have been chosen as samples to meet the purpose of the study. Data for analysis has been collected from the microfinance annual reports for the period (2014-2018). The result from this comparative analysis shows that PEACE micro-financing institution has stood at the top position among all the selected microfinance based on CAMEL rating system.

Keywords: CAMEL, capital, Microfinance, Performance and Ethiopia.

1. INTRODUCTION

1.1. Background of the study

Banks and financial institutions play a vital role in growth and economic development of a country through deposits of money from units with excess liquidity resources, risk measurement and management, evaluating business and investment projects and granting facilities to commercial and production units. It is therefore very important to evaluate performance as these banking institutions impact on a country's economy in terms of growth and development. Analysis of the status of countries that have experienced crises and instability in their banking system shows that weakness and instability in banking can bring about irreparable damage to a country's economic body (Gunsel, 2012).

The development of microfinance institutions in Ethiopia is a recent phenomenon. The proclamation, which provides for the establishment of microfinance institutions, was issued in July 1996.Since then, various microfinance institutions have legally been registered and started delivering microfinance services (Wolday, 2000).In particular, the Licensing and Supervision of Microfinance Institution Proclamation of the government encouraged the spread of Microfinance Institutions (MFIs) in both rural and urban areas as it authorized them among other things, to legally accept deposits from the general public (hence diversify sources of funds), to draw and accept drafts, and to manage funds for the micro financing business (Getaneh, 2005).

The economic progression is significantly dependent upon the optimum utilization of resources and most importantly operational efficiency of various sectors. The microfinance sector is considered as an integral part of the financial system which plays a key role in the economic development of any country through stimulating of capital formation and facilitating the monetary policy (Said &Tumin, 2011, cited in Azizi & Sarkani, 2014).A modern economy cannot be imagined without the services of a bank and microfinance. Banking and microfinance business has been shaped as the global business since the functions of banking and microfinance business have reached beyond the border of a country. Microfinance institutions, in today's

Ethiopia, play a very important role in maintaining the stability of different sectors of the economy.

Microfinance is defined as, financial services such as savings accounts, insurance funds and credit provided to poor and low-income clients so as to help them increase their income, thereby improving their standard of living.

Microfinance institutions (MFIs) provide a range of financial services to poor households. Their worldwide growth in numbers had a positive impact by providing the poor with loans, savings products, fund transfers and insurance facilities. This helped to create an encouraging socio-economic environment for many of developing countries households. The nature of these institutions is quite different from traditional financial institutions (such as commercial banks). MFIs are significantly smaller in size, limit their services towards poor households and often provide small collateral-free group loans. Most MFIs depend on donor funds and are not-for-profit oriented organizations that share a common bond among the members. They also differ in their two main operational objectives. First, as mentioned they act as financial intermediaries to poor households. Microfinance institutions (MFIs) are a special case in the financial world. They have a double financial and social role and need to be efficient at both. (1Dr. Manpreet Kaur, 2Sunanda, 3Garima Tungal and 4Dr. Abhishek Pandey 2019)

CAMEL Rating System (which was first introduced in the U.S. in 1979) is an internal supervisory tool for evaluating the soundness of financial institutions on a uniform basis. It is applied to every bank and credit union in the U.S. (approximately 8,000 institutions) and is also implemented outside the U.S. by various banking supervisory regulators. Camel Rating has been considered as one of the widely used tools for judging capital adequacy, asset quality, earnings ability and liquidity of the financial institutions. (Rahman1& Md. Shohidul Islam 2018).

The CAMELS acronym stands for Capital adequacy, Asset quality, Management, Earnings and Liquidity (Rose 2010). In the early 1970s; federal regulators of the US developed CAMEL rating system to appraise the performance of the Commercial banks. Later in 1979, the uniform financial institution's rating system was adopted to provide federal regulatory agencies with a framework for rating financial condition and individual banks (Siems and Barr, 1998).

CAMEL is a rating system generally used by the government policy circle, regulating bodies regulating commercial banks, that is, central banks and non-governmental policy research centers for the purpose of assessing the soundness of a savings association or a bank.((Md. Zahidur Rahman1&Md. Shohidul Islam 2018).

The CAMEL model is a simple and appropriate model for managerial and financial assessment of organizations (Kouser and Saba, 2012). It is classified as a modern approach for evaluating performance (Nimalathasan, 2008).

1.2. Statement of the problem

Today it becomes extremely essential for Commercial banks to evaluate their performance because their survival in the dynamic economic environment will be dependent upon their good performance.

Furthermore, since Ethiopian micro finance institution sector has shown a rapid progress in terms of total assets, capital, no of branch, increases their outreach to remote areas so evaluation of their financial performance is very necessary.

Different scholars have conducted researches on performance evaluation of commercial banks and various techniques of evaluations have been developed so far. Financial ratio analysis, CAMEL and the later CAMELS, Data Envelopment Analysis (DEA model), Analytical Hierarchy Process (AHP) are some of the methods used by scholars. For this study CAMEL model is applied.

Mulualem (2015) on his evaluation of fourteen commercial banks using panel data and multiple regression for the period of 2010-2014 reveals that Capital adequacy, Asset Quality and Management efficiency have negative relation whereas earning and liquidity shows positive relationship with both profitability measures.

Anteneh, Arega and Yonas, (2011), evaluated the performance of selected commercial banks of Ethiopia using a framework of CAMEL for the period of 2000- 2010. They found that independent variables in CAMEL framework have highly explained the performance variables i.e., return on assets and return on equity.

As per the researchers’ knowledge, there is no study done in Ethiopian micro finance institution related with financial performance evaluation. Therefore by taking the above theories in to consideration the researcher try to evaluate the financial performance of Ethiopian micro finance institution through CAMALE model.

Based on the above literature, it can be inferred that there are some studies about banks in various countries. However, a detailed study (through the CAMEL rating system) has not yet been conducted for post-2005 bank consolidation in Nigerian banking sector.

1.3. OBJECTIVES OF THE STUDY

1.3.1. GENERAL OBJECTIVE

The main objective of this study was to analyze the overall performance of Ethiopian Micro Finance Institution using CAMEL rating approaches

1.3.2 SPECIFIC OBJECTIVES

1. To check the capital adequacy level of private Micro Finance Institution
2. To evaluate the liquidity positions of Micro Finance Institution
3. To measure the management capability of Micro Finance Institution
4. To examine the earning quality of Micro Finance Institution
5. To examine the asset quality of Micro Finance Institution
6. To analyze the financial performance of MFIs.

1.4. SCOPE OF THE STUDY

The scope of the study is limited to Micro Finance Institution established in Ethiopia. The Study has taken in to account the performance of the Micro Finance Institution for the period ranging from 2014 to 2018.As a result; it includes eighteen Micro Finance Institutions the financial performance of the banks was measured using five elements of CAMEL, which were capital adequacy, Asset quality, management ability, earning quality and liquidity.

1.6 SIGNIFICANCE OF THE STUDY

The finding of study provides relevant information to private commercial banks on the area of financial performance (weakness and strength) which needs improvement. Furthermore, it gives insight about the current situations and performance of banks to the regulatory body, shareholders, investors and managers. Besides, it will be used as a reference to researchers that want further investigation into the area of study

2. REVIEW OF LITERATURE

2.1 THEORETICAL LITERATURE REVIEW

The Uniform Financial Institution Rating system, commonly referred to by the acronym CAMEL rating, was adopted by the Federal Financial Institution Examination Council on November 13 1979, and then adopted by the National Credit Union Administration in October 1987. It has proven to be an effective internal supervisory tool for evaluating soundness of a financial firm on the basis of identifying institutions that require special attention. Also the Federal Reserve Bank of America assesses its banks on a scale of one to five by application of the components of the CAMEL model that monitor various aspects of a bank's health. Reliability, profitability and liquidity are the most important criteria for assessing performance (ghasempour and salami 2016).

Therefore, since 1988 the Basel Committee on Banking Supervision has stated that application of the CAMEL model is essential in order to evaluate financial institutions (Mahdian and Asadi Afshordi, 2014). In 1997, another component, called market risk (S) was added to the CAMEL model. The CAMEL framework is a common approach to evaluate the financial health of an organization. Barr *et al.* (1999) reports "CAMEL rating has become a concise and indispensable tool for examiners and regulators". This rating ensures a bank's health by reviewing different aspects of a bank based on various sources of information such as financial statements, funding sources, macroeconomic data, budget and cash flow. CAMELS are an acronym for six components used for assessment of bank safety and soundness; these are described below:

Through CAMEL analysis, the financial performance of banks can be evaluated based on five perspectives. These include the Capital adequacy, Assets quality, Management efficiency, Earning quality and Liquidity. The choice of ratios for each element is based on the study of Apsal and Malhotra (2012) and Dang (2011).

2.2. Components of CAMEL Model

CAMEL is an acronym for five components of financial institution safety and soundness: capital adequacy, asset quality, management quality, earning ability, liquidity.

Capital adequacy: Capital adequacy is one of the most important indicators for financial health of the banking sector because it guarantees a capacity to absorb eventual losses generated by the manifestation of certain risks or certain significant macroeconomic imbalances. It is important for a bank to maintain confidence among its depositors and to prevent bankruptcy. It reflects the overall financial condition of a bank (Saghafi, 2005).

According to Prasad and Ravinder (2012), capital adequacy refers to the banks' overall financial condition and the management ability to meet the need of additional capital.

Asset quality: Asset quality is an important measure of the strength of a bank. Poor asset quality is the major cause of most cases of bank failure. Asset quality determines the health of a financial institution against loss of value in its assets as asset impairment places solvency of a financial institution at risk. The weakening value of a bank's assets has a spillover effect, as losses are eventually written-off against capital that eventually exposes the earning capacity of an institution. Within this framework, asset quality is assessed with respect to level and severity of nonperforming assets, adequacy of provisions, distribution of assets and such like (Romana, 2013).

The assets quality is another element of CAMEL which measures the bank's strength. It identifies the kinds of advances that the bank has made in order to earn the interest income as well as the types of debtors of the bank. For instance, the loans given to the high rated companies, the interest rate charged will be lower than the interest rate charged to the doubtful companies. (Rossazana Ab-Rahim1, Norlina Kadri1, Amy-Chin Ee-Ling1,Abdul Alim Dee12018)

Management quality: Management quality is basically the capability of the board of directors and management to identify, measure and control the risks of an institution's activities and to ensure safe, sound, and efficient operation in compliance with applicable laws and regulations (Gupta, 2014). Many researchers believe that management quality plays a substantial role in a bank's success.

Earning ability: Earning ability is a very important criterion as it determines the ability of a bank to earn consistently. It basically determines a bank's profitability and presents predictions for sustainability and future growth. This criterion reflects trends and evaluations of earnings as well as factors that may affect sustainability of such earnings. Inadequate management may result in loan losses and may in return require higher loan allowance or present high-level market risks. Future performance in earning should be given equal or greater value than past and present performance. A consistent profit not only builds on public confidence in a bank but it also absorbs loan losses and provides sufficient provisions. It is also necessary for a balanced financial structure and helps to provide shareholder reward. Thus consistently healthy earnings are essential for sustainability in banking institutions (Sangmi, 2010).

Liquidity: Liquidity refers to the ability of a bank or financial institution to hold the level of cash required to meet its requirements. Liquidity is a significant factor affecting determinations of regular cash flow and new investments. Therefore, banks are obliged to have appropriate and adequate liquidity to meet demands of depositors and borrowers and to attract public confidence. To achieve this, banks and financial institutions need to have an effective and efficient asset and liability management system to maintain their liquidity power through minimizing the gap between asset maturities and liabilities (Dang, 2001).

3. Research methodology

This chapter presents the underlying principles of research methodology and the choice of the appropriate research method for this study.

This study is predominantly based on secondary data which has been collected from the financial statements of respective micro finance institution for the period of 2014 to 2018. The CAMEL rating framework has been used in this study to rank the selected micro finance institution based on their performances. For the purpose of this study, 12 sub-parameters under CAMEL model have been considered which are associated with different dimensions of financial performance analysis.

The study uses a descriptive financial analysis to describe, measure, compare and classify the financial performance of Ethiopian Microfinance institution

The following Table 1 illustrates the various sub-parameters obtained for the purpose of assessment on the basis of CAMEL model.

Table 1: Definition and Measurement of Study Variables

	CAMEL Parameter	Denotation	Sub- parameter	Acronym
	Capital adequacy	C1	Total equity /total asset	TE/TA
		C2	Total debt /total asset	TD/TA
	asset quality	A1	Fixed asset /total asset	FA/TA
		A2	total loan / total asset	TL/TA
		A3	total investment / total asset	TI/TA
	Management efficiency	M1	Funds borrowed / total asset	FB/TA
		M2	Total loan /total deposit	TL/TD
		M3	Net income / equity	ROE
	Earning quality	E1	Net income/total asset	ROA
		E2	Interest income/total income	II/TI
		E3	interest income /total asset	II/TA
		E4	Noninterest income//total income	NII/TI
	Liquidity	L1	Liquid assets /total assets	LA/TA
		L2	Liquid assets /total deposit	LA/TD

3.2. Method of Data Analysis

The collected data were analyzed using both descriptive and inferential statistics tools. The researchers have been used descriptive statistical tools like mean, percentage, and ratios.

4. DATA ANALYSIS AND INTERPRETATION

CAMEL model has evaluated the performance of each microfinance institution relative to the performance of others. However, selected microfinance has been ranked based on their performances in each of the sub-parameter, Based on simple average technique to reach at the ranking in the CAMEL parameters. Again, these ranking in CAMEL parameters have been averaged to arrive at the final ranking of CAMEL model.

Table 2: Capital al adequacy ratios

	TE/TA		TD/TE		Group	
	AVG	Rank	AVG	Rank	AVG	Rank
Addis credit &savings ins.	0.3679	6	1.7297	8	7	8
Agar micro-financing ins.	0.4587	2	1.2119	4	3	2
Amhara credit and savings ins.	0.2293	15	3.3677	15	15	15
Ben. Gum. micro-financing ins.	0.2891	12	2.4758	12	12	12
Buussa Gonof.micro-financing ins.	0.3827	5	1.6294	7	6	6
Dedebit credit and savings ins.	0.1854	16	4.7022	17	16.5	16
Dire micro-financing ins.	0.3612	7	1.9464	10	8.5	9
Eshet micro-financing ins.	0.4094	4	1.5258	6	5	4
Gasha micro-financing ins.	0.2931	11	2.4141	11	11	11
Harbu Micro-financing ins.	0.2879	13	2.7071	13	13	13
Meklit micro-financing ins.	0.3347	10	1.1122	3	6.5	7
Omo credit and savings ins.	0.1184	17	7.923	18	17.5	18
Oromiya credit and savings ins.	0.1064	18	3.4204	16	17	17
PEACE micro-financing ins.	0.4145	3	1.4399	5	4	3
Sidama micro-financing ins.	0.3381	9	1.0488	2	5.5	5
Specialized fina.& prom. ins.	0.3456	8	1.9029	9	8.5	10
Wassassa micro-financing ins.	0.2645	14	2.8263	14	14	14
Wisdom micro-financing ins.	0.4978	1	1.0184	1	1	1

(Source: microfinance Annual report 2014-18)

As above table shows regarding the total capital to total asset ratios, wisdom microfinance institution was at the top position with an average of 49.78% followed by agar microfinance institution with an average ratio of 48.87%, while Oromia credit and saving institution was achieved the lowest position on an average of total capital to total asset ratio of 10.64%.

Regarding the total debt to total equity ratio, Wisdom micro-financing institution achieved top position on an average of 1.0184 times followed by Sidama micro-financing institution on average 1.0488, whereas, Omo credit and saving institution scored the least position. The final ranking based on all the capital adequacy sub-parameters indicates that Wisdom micro-financing institution has stood at the top position with group average of 1 and Omo credit and saving institution has held the lowest position with group average of 17.5 due to poor performance in capital adequacy.

2. Asset quality

Table 3: asset quality

Microfinance's name	FA/TA		TI7TA		TL/TA		GROUP	
	AVG	Rank	AVG	Rank	AVG	Rank	AVG	Rank
Addis credit &savings ins.	0.0276	15	0.0263	3	0.7441	8	8.7	5
Agar micro-financing ins.	0.0088	3	0.0008	13	0.5968	14	10.0	8
Amhara credit and savings ins.	0.0208	12	0.0127	7	0.6426	12	10.3	9
Benishangul-Gumuz ins.	0.0098	4	0	16	0.6074	13	11.0	11
Buussa Gonof.micro-financing ins.	0.0192	10	0.0078	9	0.78	5	8.0	4
Dedebit credit and savings ins.	0.0495	18	0.0281	2	0.5941	17	12.3	13
Dire micro-financing ins.	0.0074	2	0.0057	11	0.5968	15	9.3	7
Eshet micro-financing ins.	0.021	13	0	17	0.8457	2	10.7	10
Gasha micro-financing ins.	0.0197	11	0.0179	4	0.7682	6	7.0	2
Harbu Micro-financing ins.	0.0279	16	0.0025	12	0.5968	16	14.7	14
Meklit micro-financing ins.	0.0137	6	0.0059	10	0.7001	10	8.7	5
Omo credit and savings ins.	0.016	7	0.015	5	0.6928	11	7.7	3
Oromiya credit and savings ins.	0.0212	14	0.015	6	0.746	7	9.0	6
PEACE micro-financing ins.	0.0125	5	0.0125	8	0.8315	3	5.3	1
Sidama micro-financing ins.	0.0062	1	0.0002	15	0.4104	18	11.3	12
Specialized fina.& prom. ins.	0.0174	9	0.0006	14	0.885	1	8.0	4
Wassassa micro-financing ins.	0.0373	17	0	18	0.7387	10	15.0	15
Wisdom micro-financing ins.	0.0168	8	0.0363	1	0.7827	15	8.0	4

(Source: microfinance Annual report 2014-18)

Table 3 clearly shows the results of individual components of asset quality. Based on the results, Wisdom micro-financing institution has stood the first position with the average 0.0062 under fixed asset to total asset ratios. The performance of Wisdom micro-financing institution is

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the best under the total investment to total asset ratio Specialized Financial Promotional Microfinance Institution has performed best under o total loan to total asset ratio. According to the group average of asset quality sub-parameters, PEACE micro-financing institution has stood at the top position with group average of 5.3 followed by Gasha micro-financing institution. However, due to its poor performance in all sub-parameter ratios, Wassassa micro-financing institution has scored the lowest position with group average of 15.

3. Management efficiency

It is another vital parameter of CAMEL model that ensures the survival and growth of a bank. A sound management is a key to the performance of any organization. The management efficiency plays an important role in the success of an organization. Management efficiency drives the management system respond quickly to a dynamic and changing environment.

Table 4: management efficiency

Microfinance's name	FB/TA		TL/TD		ROE		GROUP	
	Average	Rank	Average	Rank	Average	Rank	average	rank
Addis credit &savings ins.	0.0197	10	1.4613	14	0.3713	7	10.3	10
Agar micro-financing ins.	0.0155	12	2.5419	6	0.2611	10	9.3	7
Amhara credit and savings ins.	0.0366	6	1.1441	16	0.2254	11	11.0	15
Ben. Gum. micro-financing ins.	0.294	1	1.5874	13	0.0702	17	10.3	10
Buussa Gonof.micro-financing ins.	0.0074	13	2.9386	2	0.344	8	7.7	5
Dedebit credit and savings ins.	0.2373	2	1.0601	17	0.1278	13	10.7	11
Dire micro-financing ins.	0.1632	3	1.4032	15	0.1207	14	10.7	11
Eshet micro-financing ins.	0.0488	5	2.2489	8	0.2792	9	7.3	4
Gasha micro-financing ins.	-	15	1.784	10	0.0973	15	13.3	13
Harbu Micro-financing ins.	0.0177	11	2.4501	7	0.0497	18	12.0	12
Meklit micro-financing ins.	-	15	2.6465	4	0.6167	5	8.0	6
Omo credit and savings ins.	0.0956	4	1.629	12	0.205	12	9.3	7
Oromiya credit and savings ins.	-	15	1.6907	11	0.645	4	10.0	9
PEACE micro-financing ins.	0.0259	7	2.5509	5	0.7282	3	5.0	3
Sidama micro-financing ins.	-	15	0.9788	18	0.0838	16	16.3	14
Specialized fina.& prom. ins.	0.0216	9	3.2602	1	0.7918	1	3.7	1
Wassassa micro-financing ins.	0.0257	8	2.7052	3	0.7435	2	4.3	2

Wisdom micro-financing ins.	0.0013	14	2.0953	9	0.3786	6	9.7	8

(Source: Source: Authors' own calculation. 2014-18)

AS above table shows concerning the ratio of fund borrowed to total asset ration ratio, Benishangul-Gumuz Microfinance micro-financing ins.ranked at the top with the highest average percentage of 29.4 followed by Dedebit credit and savings ins. (with an average of 23.73%).

Regarding total loan to total deposit, Specialized fina.& prom. ins. Was ranked at the top with the average percentage 3.2602 followed by Buussa Gonofa micro-financing ins. on the other hand, the ROE of Specialized Financial Promotional Microfinance was the first position on average 79.18% followed by Wassassa micro-financing ins. However, by group average of management quality sub-parameters, Specialized financial & prom. Institution has secured the first position with group average of 3.7 followed by Wassassa micro-financing institution and PEACE micro-financing ins. Amhara credit and savings ins. has occupied the last position securing group average of 11.00

4. Earning quality

Table 5: earning quality

	ROA		IN/TI		IN/TA		NII/TI		GROUP	
	AVG	Rank	AVG	Rank	AVG	Rank	AVG	Rank	AVG	Rank
Addis credit &savings ins.	0.1341	7	0.3794	15	0.0744	15	0.6206	3	10	11
Agar micro-financing ins.	0.1181	10	0.6811	6	0.1525	8	0.3189	13	9.25	9
Amhara credit and savings ins.	0.0521	11	0.9097	2	0.0983	12	0.0903	17	10.5	12
Ben. Gum. micro-financing ins.	0.0202	17	0.5223	10	0.0719	16	0.4777	8	12.75	17
Buussa Gonof.micro-financing	0.1279	8	0.4166	13	0.1822	2	0.5834	5	7	4
Dedebit credit and savings ins.	0.0224	16	0.9349	1	0.0916	13	0.0651	18	12	14
Dire micro-financing ins.	0.0417	12	0.6081	7	0.0661	18	0.3919	12	12.25	15
Eshet micro-financing ins.	0.1193	9	0.5359	9	0.5359	1	0.4641	9	7	5
Gasha micro-financing ins.	0.0285	13	0.6882	5	0.1594	5	0.3118	14	9.25	10
Harbu Micro-financing ins.	0.012	18	0.6995	4	0.1205	11	0.4401	10	10.75	13
Meklit micro-financing ins.	0.2577	3	0.3769	16	0.1539	7	0.6231	2	7	6
Omo credit and savings ins.	0.0236	15	0.7628	3	0.0688	17	0.2372	15	12.5	16
Oromiya credit and savings ins.	0.1423	6	0.5898	8	0.1264	10	0.4102	11	8.75	8
PEACE micro-financing ins.	0.3042	1	0.3279	18	0.1589	6	0.6721	1	6.5	2
Sidama micro-financing ins.	0.0271	14	0.3728	17	0.0761	14	0.1272	16	15.25	18
Specialized fina.& prom. ins.	0.2773	2	0.4663	12	0.1716	3	0.5337	6	5.75	1
Wassassa micro-financing ins.	0.1967	4	0.4102	14	0.1332	9	0.5898	4	7.75	7
Wisdom micro-financing ins.	0.1846	5	0.4891	11	0.1691	4	0.5109	7	6.75	3

(Source: microfinance Annual report 2014-18)

As the above table shows, PEACE micro-financing institution ranked first with an average ROA of 30.4.2% followed by Specialized Financial Promotional Microfinance and Harbu Micro-financing institution has scored lowest and stood last position. With regard to interest income to total asset ratio, Eshet micro-financing ins. was at first position with an average ratio of 53.59% followed by Specialized Financial Promotional Microfinance on average 27.73%, whereas, dire micro-financing ins. was at last place with an average of 4.17%.

Concerning the ratio of non net interest income to total income, PEACE micro-financing institution attained the highest compared to the rest microfinance institution with an average percentage of 67.21% while Dedebit credit and savings institution achieved the least with an average score of 6.51%.

5. Liquidity

Table 6: liquidity

microfinance's name	LA/TA		LA/TD			
	average	Rank	average	Rank	average	Rank
Addis credit &savings ins.	0.166	9	0.33282	11	10	10
Agar micro-financing ins.	0.1983	5	0.19827	17	11	12
Amhara credit and savings ins.	0.2696	2	0.4788	7	4.5	3
Ben. Gum. micro-financing ins.	0.2454	3	0.63671	3	3	2
Buussa Gonof.micro-financing ins.	0.1644	10	0.6007	4	7	5
Dedebit credit and savings ins.	0.2009	4	0.33322	10	7	6
Dire micro-financing ins.	0.3527	1	0.91173	1	1	1
Eshet micro-financing ins.	0.0975	15	0.25917	15	15	15
Gasha micro-financing ins.	0.127	14	0.29245	13	13.5	14
Harbu Micro-financing ins.	0.1451	11	0.52381	5	8	9
Meklit micro-financing ins.	0.0644	17	0.23622	16	16.5	17
Omo credit and savings ins.	0.1374	13	0.32127	12	12.5	13
Oromiya credit and savings ins.	0.1979	6	0.45759	8	7	7
PEACE micro-financing ins.	0.1392	12	0.4246	9	10.5	11
Sidama micro-financing ins.	0.0633	18	0.1472	18	18	18
Specialized fina.& prom. ins.	0.0743	16	0.27298	14	15	16
Wassassa micro-financing ins.	0.1829	7	0.66296	2	4.5	4
Wisdom micro-financing ins.	0.1714	8	0.48134	6	7	8

(Source: microfinance Annual report 2014-18)

As above table exhibited the, liquid asset to total asset ratio, Dire micro-financing institution was at first place with highest average percentage of 35.27% which was followed by Amhara credit and savings ins. with an average percentage of 26.96, while Sidama micro-financing ins. was at last place with least average of 6.33%.Concerning total loan to total deposit ratio, Dire micro-financing ins. first followed by Wassassa micro-financing institution while Sidama micro-financing ins. ranked to the least place.

Table 7: Overall performance of sample microfinance during the period (2014-2018)

	C	A	M	E	L	AVG	Composite CAMEL Rating
Addis credit &savings ins.	8	5	10	11	10	8.8	10
Agar micro-financing ins.	2	8	7	9	12	7.6	5
Amhara credit and savings ins.	15	9	15	12	3	10.8	14
Ben. Gum. micro-financing ins.	12	11	10	17	2	10.4	13
Buussa Gonof.micro-financing ins.	6	4	5	4	5	4.8	2
Dedebit credit and savings ins.	16	13	11	14	6	12	16
Dire micro-financing ins.	9	7	11	15	1	8.6	9
Eshet micro-financing ins.	4	10	4	5	15	7.6	6
Gasha micro-financing ins.	11	2	13	10	14	10	12
Harbu Micro-financing ins.	13	14	12	13	9	12.2	17
Meklit micro-financing ins.	7	5	6	6	17	8.2	7
Omo credit and savings ins.	18	3	7	16	13	11.4	15
Oromiya credit and savings ins.	17	6	9	8	7	9.4	11
PEACE micro-financing ins.	3	1	3	2	11	4	1
Sidama micro-financing ins.	5	12	14	18	18	13.4	18
Specialized fina.& prom. ins.	10	4	1	1	16	6.4	4
Wassassa micro-financing ins.	14	15	2	7	4	8.4	8
Wisdom micro-financing ins.	1	4	8	3	8	4.8	3

The Table 7 depicts the overall performance under CAMEL rating analysis of the eighteen chosen microfinance institution. In order to assess the overall performance of the selected chosen microfinance institution, the researcher calculated the composite ranking and results have been conferred in Table 7. Taking consolidated results, it can be observed from the table that PEACE micro-financing institution has performed best among all chosen microfinance institution and ranked at the top position with composite average of 4 followed by Buussa Gonofa micro-financing institution and Wisdom micro-financing institution. However, sidama microfinance institution has occupied the last position among all the selected microfinance with composite average of 13.40.

5. Conclusion

CAMEL rating approach is considered as an important tool for identifying the financial strengths and weaknesses of microfinance institution. This analysis helps to point out possible weaknesses and suggest necessary corrective measures to overcome weaknesses and thus improve the overall performance of a microfinance institution. This study has been conducted to examine the performance of eighteen selected microfinance institution in Ethiopia during the period 2014-2018 with respect to CAMEL ratios. The major findings of the study were as follows;

- In terms of capital adequacy indicators, Wisdom micro-financing institution was rated first and followed by Agar micro-financing institution. Omo credit and savings institution had maintained the last position.
- With regard to asset quality measures PEACE micro-financing institution placed first and followed by Gasha micro-financing institution. Wassassa micro-financing institution scored the last position.
- Specialized Specialized Financial Promotional Microfinance was rated first as per Management quality measures. Followed by Wassassa micro-financing institution., while Amhara credit and savings institution scored the last position
- In earning ability, Specialized Financial Promotional Microfinance achieved the first position followed by PEACE micro-financing institution, whereas Sidama micro-financing institution least from the sampled microfinance.
- In terms of liquidity dire micro-financing institution scored first, Followed Benishangul-Gumuz Microfinance institution while Sidama micro-financing institution maintained the last position.

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