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Financial distress situation of financial sectors in Ethiopia: A review paper

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Abstract: The development of financial sectors is considered as one of vital determinants of the growth of Ethiopian economy, and for secure equitable distribution of the benefits to the society. However, financial distress has an effect on the sectors. This review was conducted to assess financial distress situation of financial sectors in Ethiopia. The objective is specifically to identify the determinants of financial distress, opportunities of financial sectors, and challenges and constraints of financial distress in Ethiopia. Ethiopia is a developing country with majority of unbanked population. Liquidity, profitability, leverage, firm size, capital adequacy, management efficiency, earning ability, inflation and interest rate are major determinant of financial distress in Ethiopia. Moreover, Ethiopian financial sectors have an opportunity of trade openness, rapid economic growth, unexploited resource, population growth and encouragement of privatization.

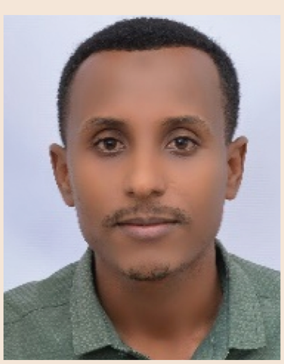
Subjects: Economics; Finance; Busines Management and Accounting

Keywords: Commercial banks; Companies; Financial distress; Insurance; Microfinance

1. Introduction

1.1. Background and justification

Financial soundness of a country depends on a robust financial system that comprises a set of financial institutions, efficient financial markets, financial instruments and after all, customer centric financial services. The nature and extent of financial crisis in the financial system depend on understanding the impact and likelihood of systemic risk (Allen et al., 2006). The financial institutions like banks and insurance companies act as mediation from savers to investors and channelize the cash flow from surplus to deficit economy and constantly thrive for balanced



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PUBLIC INTEREST STATEMENT

This review paper aimed to assess financial distress situation of financial sectors in Ethiopia. Financial distress describes a condition where individuals or firms are unable to pay their obligations or suffering with financial problems. Usually, workers of a distressed firm have lower morale and less productive. The Ethiopian financial sectors are very exposed to the internal as well as external crises. Yet it is very important and reasonable to assess the financial distress situations of financial sectors as they are found to be the key divers of the nation's economic growth. This review paper may contribute to the sectors in reducing financial distress conditions by considering important recommendations.

regional growth of a nation. The role of a banking sector is to utilize the resources judiciously that fuels economic growth and brings global competitiveness (Mwega, 2011). Hence, financial development is a prerequisite and good predictor of future rates of economic growth, capital accumulation and technological change (Levine, 1996). However, disruptions like financial distress impede the ability of the financial sector to intermediate financial flows and might also be restrain economic activity (Zamorski & Lee, 2015).

Financial sector is central to meeting the Ethiopian government's developmental goal of poverty alleviation and private sector growth. It is increasingly understood that adequate financial services such as loans, savings products, insurance and payment services for the broad population, including poor households, poor farmers, promote equality and productivity (Wiedmaier-Pfister et al., 2008). In Ethiopia the formal sources are financial institutions that are set up legally and engaged in the provision of credit and mobilization of saving. These institutions are regulated and controlled by the National Bank of Ethiopia (NBE). In the Ethiopian context formal financial sector includes National Bank of Ethiopia (NBE), commercial banks (owned by private and public), Development Bank of Ethiopia (DBE), credit and savings cooperative, insurance companies (both public and private) and microfinance (MF) institutions (owned by regional governments, NGOs, associations and individuals) (National Bank of Ethiopia (NBE), 2013/14).

Banking sectors are the backbone of Ethiopia economy. It is one of the important financial pillars in the financial institution that caters necessary financial inputs to produce goods and services, which in turn promotes the well-being and standard of living for the people. It plays a crucial role in the development and promotion of the economy and allows the transfer of resource from savers to investors. The problem of financial distress in the banking industry has been huge concern to all stakeholders of the economy and the world business community at large. Therefore, the issue of financial distress is critical in the area of banking sectors more than other sectors. If the banking sector of a given country faces financial crisis, chances are high that it would lead to general economic crisis (Mirgüç-Kunt & Detragiache, 1998). According to proclamation no. 592/2008, banks play an important role in economic development through mobilization of funds within and outside the country and channelling such funds to various sectors of the economy.

It is obvious that the insurance industry is one of the most important elements of the financial sector as well as the whole economy of a nation. A country's economy will be adversely affected by the failure of the insurance industry (Donnelly, 2007). Failure of a firm in this sector may lead to economic crisis. When companies become financially distressed, they will have an effect on the economy and negatively affects the economic stability of other sectors in a country (Hendel, 1996).

The Ethiopian Microfinance sector is one of the fastest growing financial institutions in the world though its formality is a recent phenomenon that gained momentum after the establishment of MF institutions proclamation 40/1996 (Devi, 2017). As financial sector, the health of MF institutions is crucial to sustainable economic growth of a country for the reason that an efficient flow of fund between savers and investors cannot be preserved without a sound financial sector (Masud & Haq, 2016). For this reason, many studies in finance support the need for prediction of the financial soundness and the likely occurrence of financial distress in the institutions since predicting failure as early as possible with sound accuracy enables the firm to take action in reducing the costs of bankruptcy, avoid failure to all stakeholders and contribute towards the business and financial environment stability (Mahama, 2015).

MF is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households. In some cases, the micro-credit programme involves saving services, but the services are limited to the collection of compulsory deposit amounts from the borrowers to collateralize the loans issued. Borrowers cannot access these compulsory deposits and cannot have voluntary saving accounts in micro-credit programmes (World Bank, 2008). The inability of the formal financial sector to provide adequate financial services to small farmers and the poor in general continued even after the reforms (Admassie, 2004). The bulk of financial services provided to small and micro-enterprises in rural and urban areas. Therefore, mostly originated from the informal sector such as Eqqub, moneylenders and friends (National Bank of Ethiopia (NBE), 1996). In other words, the bulk of the rural credit comes from informal sources.

Deribie et al. (2013) found that MF institutions are decisive way outs from the vicious circle of poverty for the rural and urban poor's particularly in a country like Ethiopia where many people live barely below the absolute poverty line. The MF industry of Ethiopia is escalating in the face of the growing deep concerns for inflation and low interest rate in the MF industry affecting the financial health and viability of Micro-Finance Institutions (MFIs).

Lack of access to financial services is one of the causes of poverty in Ethiopia. Formal financial institutions are inefficient and inaccessible in providing credit facilities to the poor (Assefa & Demke, 2005). Thus, developing an alternative mechanism for providing financial services to the poor households became critical. In realizing this, the Ethiopian government were created the legal and regulatory framework for the establishment of MF institutions. Although informal credit markets operate widely in rural areas of Ethiopia, moneylenders typically charge very high interest rates, inhibiting the rural poor from investing in productive income generating activities. Thus, failure of the formal financial institutions to fulfil the financial needs of the rural poor on the one hand, and inadequacy and exploitative or costly nature of informal credit sources on the other, led to the establishment of specialized financial institutions known as MFIs with the purpose of extending micro-credit to the rural and urban poor (Fidler & Webster, 1996).

Therefore, the Ethiopian financial sectors are very exposed to the internal as well as external crisis. Yet it is very important and reasonable to measure the financial distress conditions of financial sectors as they are found to be the key divers of the nation's economic growth. Understanding the reasons of financial distress in the financial sectors can help the sector to identify the problem related to financial distress before attacking the sector as well as helps the company to develop strategies to cope up with a financial distress problem.

Recently, financial distress has become a famous topic in finance and financial health of firms/enterprises as a crucial indicator for interested users to know more about firm's performance. According to Wua et al. (2008), financial distress can be defined as a condition where financial obligations are not met or met with difficulty by a firm. Chan and Chen (1991) defined financially distressed firms as those having poor performance, inefficient producers and also those likely to have high financial leverage and cash flow problems due to which firms lose their market value. Wruck (1990), explained that financial distress is a situation where a company's operating cash flow are not sufficient to satisfy current liabilities (such as account payable or interest expenses) so that the company is forced to make decision in order to solve the problem. This forces firm into negotiations with creditors about the conditions of deferment on their debt repayment during the ensuing period of distressed restructuring (Espenlaub & Garrett, 2008).

In a broad sense, financial distress could be understood as a negative connotation in order to describe the financial situation of firms confronted with a temporary lack of liquidity and with the difficulties that ensue in fulfilling financial obligations on schedule and to the full extent (Hui & Jing-Jin, 2008). Gruszczynski (2004), explain employees of a distressed firm usually have lower morale and higher stress caused by the increased chance of bankruptcy, which would force them out of their jobs. Such workers can be less productive when under such a burden. When companies become financially distressed, they will have an effect on the economy and negatively affect the economic stability of other sectors in a country (Kana, 2004).

In Ethiopia, various studies were conducted to identify determinant factors of financial distress specifically on financial sectors. Thus, this review was conducted to assess the situation of financial distress on financial sectors of Ethiopia. Ethiopia is one of the countries found in Africa in which some problems existing at the moment related to financial distress of financial sectors. However, to minimize the firm's financial distress in all sectors, it is important to see the financial distress situation of financial sectors and precisely this will help the sectors to rectify the problems related to financial distress and to expand financial facilities to all sections of the society.

1.2. Objectives

The overall objective of this review paper was to assess financial distress situation of financial sectors in Ethiopia, and it specifically aims to:

- Review the determinants of financial distress in Ethiopia
- Review opportunities of financial sectors in Ethiopia
- Review the challenges and constraints that causes financial distress in Ethiopia

2. Methodology

This review is based on an intensive literature review of published and unpublished materials like books, articles and other scholarly materials. The data are presented in a narration form.

2.1. Concepts and definitions applied in financial distress analysis

Various scholars have been defined financial distress in different ways. According to Hendel (1996), financial distress is defined as the likelihood of bankruptcy, which depends on the level of liquid assets as well as on credit availability. Denis and Denis (1995) explained financial distress when a company experiences loss (negative pre-tax operating income or net income) over at least three consecutive years. Results of their empirical analysis shows that after a company enters into financial distress, it usually experiences cash-flow problems and unable to pay dividends. Therefore, rapid and aggressive dividend reductions together with consecutive negative income can be used in order to determine financial distress situation.

According to Baldwin and Mason (1983), financial distress refers to inability of the firm to pay current obligations on the dates they are due. Muller et al. (2009) defined financial distress as the situation when a company cannot continue to exist in its current form. Whitaker (1999) defined financial distress as either insufficient net operating cash flow to repay maturing debts and loss of corporate market value, or the occurrence of negative retained earnings or net loss in the last three years. Andrade and Kaplan (1998) described financial distress as the situation when a company is not capable to pay its liabilities to the third parties or condition whereby a firm does not meet creditor obligations.

An entity is said to be in a financial distress stage if it faces operating, investing and financing difficulties to the extent that it is not able to settle its obligations when they fall due (Adeyemi, 2011). According to Gopinath (1995), any enterprise is susceptible to financial distress if it has frequent cash shortages and few revenue streams. Therefore, small enterprises are more likely to experience financial distress. Companies facing insolvency often liquidate assets to settle debts. However, small enterprises have few assets to sell and tend to fall victim to secured creditors who focus on debt collection to the detriment of the firm.

Platt and Platt (2006) through an empirical study concluded that a firm is said to be in financial distress when it gets into a demanding situation whether financially, operationally or legally such that it cannot honor its obligations when they fall due. They provided a multidimensional approach of determining whether an entity is financially distressed by checking whether it has reported negative earnings before special items such interest, depreciation, amortization and tax. This implied that, entities which were financially distressed often reported a loss from their key

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operational activities. According to Altman and Hotchkiss (2006), firm is financially distressed if it faces four problems (failure, insolvency, default and bankruptcy). Financial institution especially banks considered as to be contributed in a way that it adds value to the theory of financial distress.

2.2. Determinants of financial distress in Ethiopia

In their previous studies, different authors pointed out different variables as the determinants of financial distress in Ethiopia. For instance, Meher and Getaneh (2019), Investigated the impact of determinants of financial distress on financial sustainability of Ethiopian commercial banks. The indicators of financial distress are bank's specific internals and macro-economic factors. The finding reveals that Absolute Liquidity Risk and Net Income Growth are found to be positive and significant, and Solvency Risk has negative and significant influence in relation to Return on Assets. Asset Quality is found to be positive and significant, and Solvency Risk has negative and significant effect with respect to Return on Equity. Asset Quality and Net Income Risk are found to be positive and significant, and Solvency Risk has negative and significant impact on Financial Stability Index. Absolute Liquidity Risk and Liquidity Risk were positive and significant, and Credit Risk has negative and significant effect on Bank Soundness. The study also reveals that financial sustainability of banks is insulated from the exposures of systematic risks originating from macro-economic factors.

Aman (2019), Conducted on determinants of financial distress of banking sector in Ethiopia. The finding shows that Profitability and liquidity have a positive and significant influence on Debt Service Coverage. On the other hand, average inflation, solvability and firm size have a negative and significant impact on Debt Service Coverage. Therefore, it concluded that micro and macro factors extracted from variables significantly correlated and have even better ability to determine financial distress of Ethiopia banking sector.

Yirgu (2017), carried out a study on determinants of financial distress: Empirical evidence from banks in Ethiopia. The study identified capital adequacy, management efficiency, earning ability and bank size having negative effect on banking financial distress and except size all of them appeared significant. Whereas, asset quality and liquidity appeared having positive and insignificant effect, but liquidity was only significant. Regarding the macro-economic factors, economic growth and saving interest rate have significantly negative and positive effect on banking financial distress respectively; whereas inflation was not significant. In general, the research concludes that both bank specific and macro-economic factors determine the level of financial distress of Ethiopian commercial banks. Finally, he concludes that sampled banks were under distress.

Gebreslassie and Nidu (2015), tried to identify the financial distress conditions and its determinants in selected private commercial banks in Ethiopia by considering Working capital/total assets, net operating profit /total assets, EBIT/total assets, book value of equity/total debt and Sales/total assets. The finding of the study shows that financial health of the selected private commercial banks is good and improving from time to time, but some fluctuating trend is observed. Finally, they recommended that there should be more supervision from national bank of Ethiopia on banks, and banks with low score need to work hard towards improvement of their financial healthiness.

Zelie and Wassie (2019) Examines the financial distress condition and its firm specific determinant factors (Profitability, Liquidity, Efficiency, Leverage and firm size) in the Ethiopian insurance industry. The result shows that the financial health condition of the insurers was not in a safe condition and it shows continuous fluctuations. However, the regression analysis results of study shows that profitability and liquidity of insurers have statistically significant positive effect on their financial distress condition. Whereas, leverage has statistically significant negative effect on the financial distress condition of insurance companies. In contrast, efficiency and firm size have no statistically significant effect on the financial health condition of insurance companies.

Meressa (2018) Evaluated the financial distress condition of MF institutions in Ethiopia. The result revealed that 94 percent of MFIs are in the safe zone and 6 percent in the grey zone among the selected institutions. The finding of the study also indicates there was fluctuation in Z-score of the institutions from period to period.

Haregewayin (2017) conducted on determinants of financial distress: the case of MF institutions in Ethiopia. The study found that capital adequacy, earning ability, liquidity and institution age have significant negative impact on financial distress of MFIs, whereas portfolio at risk greater than 30 days has significant positive influence on financial distress of MFIs. Operational efficiency of MFIs which is measured by operating expense to gross loan portfolio has negative influence on financial health of MFIs but statistically insignificant. Macro-economic factors such as GDP and inflation have no significant influence on financial distress of MFIs in Ethiopia. From this, he recommends that the managements of MFIs ensure strict adherence to regular loan monitoring and also credit policies of MFIs must be regularly updated. Moreover, managements of MFIs should give great emphasis in properly managing capital to asset ratio. Regulators and policy makers also need to set the minimum capital adequacy requirements for MFIs because well capitalized MFIs are more flexible in dealing with problems arising from unexpected losses.

Nigussie (2021) investigated the determinants of financial distress of insurance companies in Ethiopia. The descriptive statistics output revealed that sampled insurance companies are in the safe zone. The RE regression model result shows that profitability, firm size, leverage, and company age were negatively correlated to financial distress having a strong negative effect on financial distress. On the other hand, asset tangibility and loss ratio have a positive and statistically significant effect on financial distress. Based on the findings, he suggests that Insurance Companies in Ethiopia shall be more concerned about the internal environment (factors) while developing policies and strategies to manage the financial distress condition (Table 1).

Table 1. Summaries of empirical reviews

Authors	Dependent variable	Independent variables	Models
Meher and Getaneh (2019)	Financial distress	Absolute Cash Ratio, Cash Ratio, Net Income Growth, Asset Quality, Net Interest Risk, Credit Risk, and Solvency Risk, General Inflation, GDP per Capita, Trade Deficit, Ending Exchange Rate and Lending Interest Rate. Return on Assets, Return on Equity,	OLS Regression Model (Pooled Regression and Fixed Effect Regression Model).
	Financial sustainability	Financial Stability Index and Bank Soundness.	Financial Stability Index.
Aman (2019)	Financial distress	Liquidity, Leverage, profitability, solvability, size, efficiency, inflation, and gross domestic product.	Fixed Effect
Yirgu (2017)	Financial distress	Capital adequacy, Asset quality, Management quality, Earnings, Liquidity, bank size; GDP, inflation, saving interest rate.	Altman's Z-score

(*Continued*)

Authors	Dependent variable	Independent variables	Models
Gebreslassie and Nidu (2015)	Financial distress	Working capital/total assets, Net operating profit/total assets, EBIT/ total assets, book value of equity/total debt, and Sales/total assets.	Altman's Z-score
Zelie and Wassie (2019)	Financial distress condition	Profitability, Liquidity, Efficiency, Leverage and firm size.	Altman's Z"-score
Meressa (2018)	Financial distress	Working capital/Total assets, Retained earnings/Total assets, Earnings before interest and taxes/ Total assets, Market value equity/Book value of total liabilities and Sales/Total assets.	Altman's Z"-score
Haregewayin (2017)	Financial distress	Capital adequacy, portfolio quality, Operational efficiency, earning ability, liquidity, firm age, GDP and inflation.	Altman's Z"-score model
Yonas and McMillan (2021)	Financial distress	Profitability, firm size, leverage, company age, asset tangibility and loss ratio.	Random effect (RE) regression

Source: Authors' Computation.

2.3. Opportunities of financial sectors in Ethiopia

In Ethiopia the banking sector is improving from time to time in terms of service provision, outreach, capital, asset size, resource mobilization, credit disbursement and automation (National Bank of Ethiopia (NBE), 2013/14). According to Abreha (2015), Trade openness, real interest rate, population growth and government consumption expenditure have far reaching statistically significant impact on the development of the banking sector by influencing the volume of credit provided by banks to the private sector.

The Ethiopian MF sector is characterized by its rapid growth, an aggressive drive to achieve scale (Kebede, 2017). Hence, Ethiopia's emphasis on maintaining macro-economic stability even at the cost of retaining inefficiency in the financial system may be optimal in the second-best world that characterises Africa's transition economies (Addison & Geda, 2001). As an intervention strategy, Ethiopia crafted and engaged implementing Growth and Transformation Plan (GTP). To realize the plan, MF is considered by the government to be one of the important tools in fighting poverty and thus, the expansion of micro- and small-scale enterprise and efforts to reach the poor and expanding self-employment opportunities especially for the youth and women are the current policy direction (Kassa, 2010).

Tessema (2003) states that many prospects (opportunities) for developing securities markets exist in Ethiopia. The prospects are Ethiopia has considerable unexploited resources, one of the largest potential markets in Africa, the economic liberalization which has taking place in Ethiopia are quite encouraging, the privatization efforts going on would help with the supply problems (government is withdrawing from profit-making activities and is transferring state-owned enterprises into private ownership) particularly if a public offering of shares is used as the method of privatization, the existence of many profitable companies which can potentially benefit from floating shares to the public, the existence of institutions like the country's Pension Fund, insurance companies, credit unions, etc., with large sums of money. Finally, he recommends that financial markets need to be established in Ethiopia for further speed up the growth of the Ethiopian economy.

Abdulahi (2014) in his study indicated that most of the poor women in MF institution get the opportunity of accessing money, starting business, detachment from local money lenders, enhancement in social relationship. Moreover, those poor women who have another source of income like land, livestock, house renting and also non loan diverters were obtained the opportunity of expanding their businesses, educating their children in terms of material support, improvement in income, expenditure and home utility, generally improvement in social and economic condition. He also indicated that, there is implication for collaboration between policy makers, social work and micro-finance practitioners and researchers to address the challenges of poor women in MF service.

According to (National Bank of Ethiopia (NBE), 2021), the total number of banks in Ethiopia has reached 19, of which 17 were private and the remaining 2 state owned. These banks have opened 269 new bank branches during the review period thereby increasing the number of bank branches to 6,897. Of the total bank branches, the share of state-owned banks was 28.1 percent while that of private banks stood at 71.9 percent. Total capital of the banking system reached Birr 120.8 billion, of which state-owned banks accounted for 48.1 percent while private banks took 51.9 percent share. The share of Commercial Bank of Ethiopia (CBE) in total capital of the banking system was 41.7 percent as of December 2020.

Similarly, the number of insurance companies stood at 18, of which 17 were private and 1 state owned. Their branch network increased to 622 from 585 a year ago. Total capital of insurance companies reached Birr 10.2 billion compared to Birr 8.9 billion a year ago. Private insurance companies accounted for 71.4 percent of the total capital of the insurance sector.

During the review quarter, there were 39 MF institutions (MFIs), which have mobilized Birr 48.4 billion in saving deposit, depicting 16.2 percent annual growth. Similarly, their outstanding credit rose 5.3 percent to Birr 64.9 billion while their total assets increased 13.3 percent growth to reach Birr 97.1 billion. Their capital also increased to Birr 20.3 billion showing 15.0 percent annual growth.

Total resources mobilized by the banking system (the sum of net change in deposit, loans collected and net change in borrowings) rise 33.7 percent over last year due to the policy change made by the National Bank of Ethiopia with respect to Legal Tender Protection Directive that restricts cash holding and cash withdrawal limits and demonetization measures that resulted in high deposit mobilization during the first half of 2020/21.

National bank of Ethiopia (NBE) gross claims on the central government as of end December 2020 has reached Birr 248.1 billion about 21.5 percent higher than a year earlier of which, government bonds accounted for 79.9 percent and direct advance 20.1 percent. The share of direct advance dropped by 74.8 percent compared with last year due to its conversion to government bond, thereby increasing the share of bonds. Deposit of financial institutions at the NBE surged 73.8 percent owing to an increase in bank deposits as their liquidity position improved as a result of NBE policy measures (National Bank of Ethiopia (NBE), 2021). These indicates that the developments on the financial sector of Ethiopia now increases.

2.4. Challenges and constraints that causes financial distress in Ethiopia

A financial system is said to be developed if it produces and processes information on investment opportunities. Challenges allocate capital based on that information, monitoring individuals and firm's investments and puts forth corporate governance, managing risks, mobilizing and pooling savings, and easing the exchange of goods and services. When financial systems perform these functions poorly, it hampers economic growth, restrains economic opportunities and destabilizes economies (Hagos & Asfaw, 2014).

Many studies have depicted that Ethiopian financial sectors are faced with numerous challenges and problems. According to Kebede (2017), limited source of fund, ineffective and inefficient resource mobilization aggregated by weak human resource management practices are the major challenges hindering MF institutions. According to Teka and Mengesha (2006), one of the obvious challenges of the MFIs in Ethiopia and indeed elsewhere in the world is the question of financial sustainability. According to Ossa (2014), the primary cause for all problems is fund shortage and in turn, the primary cause for fund shortage is insufficient start up equity capital. In addition, ownership structure is identified as supplementary cause of governance problems.

Financial distress can be caused by many factors such as, endogenous risks, miss-management, high leverage level and an inefficient operating structure, low level of liquidity and negative cash flows (Andrade & Kaplan, 1998; Outecheva, 2007; Whitaker, 1999). Firms failing under financial distress will face a variety of problems, such as dividend reductions, losses, plant closings, layoffs, reduced stock prices, insufficient cash inflows to pay maturing debt & contract renewal problems, difficulty in getting access to capital and lose customers (Espenlaub & Garrett, 2008).

MF sectors in Ethiopia plays an important role in financial inclusion and is characterized by a mix of institutions. However, currently many MFIs do not operate efficiently and have limited outreach. The dominance of government-affiliated MFIs, which do not operate on a fully commercial basis, has distorted overall growth in the sector (the Ethiopia Financial Sector Development, 2019). According to the Findex data (Global Findex Database, 2017) two-thirds of Ethiopian adults do not have a transaction account with women accounting for a disproportionate share of the unbanked, and only 35 percent of adults have an account at a formal financial institution. People rely more on informal institutions for their financial needs although 62 percent of adults reported saving money in the past year only 26 percent had their savings in a formal financial institution. At the same time, 41 percent of Ethiopians borrowed money from various sources, but only 11 percent borrowed from financial institutions.

According to Ethiopia Financial Sector Development (2019), there is no macro-prudential oversight function in Ethiopia. Macro-prudential supervision emerged as a lesson from the 2008 global financial crisis and became a new international best practice. Macro-prudential oversight needs to be built on sound micro-prudential supervision and is needed to address systemic risks and vulnerabilities that pile up in the system. Also, Ethiopia does not developed capital markets and the current system uses captive investors to purchase government securities at negative real rates. There is no market-based issuance of domestic government debt and secondary bond markets do not exist for a number of technical and pricing reasons.

According to Abdulahi (2014), poor women in the intervention of MFI face various challenges that are related to the community, institution, the poor women themselves and family. As a result, these challenges have been influenced the achievements of the poor women in MF intervention. In addition, these challenges are accompanied by various social problems like that of leaving the area where loan has been taken, committing suicidal attempt.

According to African economic outlook (AEA) (2021), Ethiopia's economy grew by 6.1 percent in 2020, down from 8.4 percent in 2019, largely because of the COVID-19 pandemic. Growth was led by service and industry sectors. Ethiopia's financing requirements are significant given in large physical and social infrastructure needs and low tax-to-GDP ratio, which averaged 10 percent from 2017 to 2020.

3. Conclusion

Financial sector has played a leading role in many less developed countries especially like Africa and Ethiopia specifically. Financial sector is a crucial building block for public as well as private sector development by providing loans, deposits and other financial products and also increasing the ability of individuals and households to access basic financial services. Hence, Ethiopia's emphasis on maintaining macro-economic stability and has seen considerable reorganization of state and private banks, MF institutions and insurance companies.

The Ethiopian finance sector is characterized by its rapid economic growth and have been developed Growth and Transformation plan (GTP) and exerting greater efforts to alleviate poverty so as to realize inclusive and sustainable development. Additionally, the sector obtaining opportunities (prospects) for facilitating its growth. Trade openness, rapid economic growth and population growth, unexploited resource and encouragement of privatization are some of the opportunities.

However, the sector cannot be protected from financial distress and has faced with many challenges and problems that causes financial distress the sectors, such as limited outreach, inefficient operation, shortage of fund, high level of leverage, low level of liquidity, negative cashflows, endogenous risk, insufficient start-up capital and ineffective resource mobilization due to poor human resource management practice. Moreover liquidity, profitability, leverage, firm size, capital adequacy, management efficiency, earning ability, inflation and interest rate are the main determinants of financial distress in Ethiopia. Therefore, Understanding the cause of financial distress in the financial sector can help the sectors to identify problems related to financial distress before attacking the industry as well as to develop strategies to cope up with financial distress problem.

4. Recommendation

To make considerable improvement on financial distress situation in Ethiopia the following measures and actions should be taken by the government of Ethiopia, financial sectors, national and international organizations.

- Government should provide sufficient funds and other incentives so as to raise efficiency of MF institutions and private banks in order to improve financial access or saving and credit culture and quality of financial services.
- Financial sectors recommended to building strong management, its commitment to recruit trained and experienced personnel's and management members.
- The banks with low financial healthiness should take actions such as decreasing their non-performing loan by improving loan collection mechanism, improving their capital adequacy by increasing minimum paid up capital and strengthen their banking system.
- Companies are recommended to increase liquidity through highly deposit mobilization or reducing long-term loans.
- In general, all the sectors and policy makers should take into account the effect of company-specific determinants and macro-economic factors while making strategies and managing risks to rectify problems related to financial distress.

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