

MBA 147

A Project Paper on

Marketing of Micro Finance in Ethiopia

Submitted in partial fulfillment to the requirements of
Master in Business Administration

By

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26/3/07

Faculty of Business & Economics
Addis Ababa University
March 2007

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MBA
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MBA PROGRAM
FACULTY OF BUSINESS AND ECONOMICS
ADDIS ABABA UNIVERSITY

Micro Finance Market in Ethiopia (MFI)

By: Bogale Boshe

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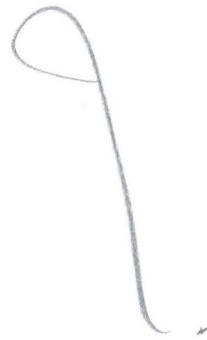
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Examiner



Statement of Approval

This is to certify that Ato Bogale Boshe has completed a research paper entitled **Micro Finance Market in Ethiopia** under my guidance. I also approve that his work is appropriate enough to be submitted in partial fulfillment for the requirement of the degree in Masters in Business Administration.



Rakesh Belwal (PhD)



Acknowledgement

First and foremost I am grateful to my advisor Assistance Professor Rakesh Belwal for his extensive, scholarly and knowledgeable advice, as well for his patience, assistance and support throughout my work on this research.

I would like to extent my thanks to my brother Tesfaye Tadesse and my sister Italem Besufekad for their unwavering morale support all the way.

My special thanks go to my sister Rahel Getachew and all friends, who have been by my side not only while I have been working this paper, also from start to completion of my second Degree program.

Let Lord Jesus Christ be thanked more than any one else for he provided me all.

Table of Contents

Page

Acknowledgement

List of Table

Acronyms

CHAPTER ONE

1. Introduction

1.2 Statement of the Problem -----	6
1.3 Objectives of the Study -----	8
1.4 Significant of the Study-----	8
1.5 Limitations of the Study-----	9
1.6 Measurement, Materials and Methodology-----	9
1.7 Method of Data Collection-----	12
1.8 Method of Data Processing-----	13
1.9 Method of Data Analysis -----	13
1.10 Geographical Area Coverage-----	14

CHAPTER TWO

2. RELATED LETERATURE REVIEW

2.1 Multiple usages of Financial Institutions -----	15
2.2 Types of Financial Institution -----	17
2.2.1 Formal Financial Institutional Structure -----	17
2.2.2 Informal Finance and Traditional Views -----	18
2.2.3 Sophisticated but Unregulated Institutions -----	19
2.2.4 Types of Informal Finance -----	19
2.3 Group Individual Lending-----	24
2.4 Benefits of Product Development for EBS Clients-----	25
2.5 Increasing availability of savings services -----	33
2.6 Product Diversification -----	34
2.7 Interest Rates Unaffected -----	34
2.8 Saving -----	35

F. B. I.
LIBRARY

2.9 Consumption Loan -----	35
2.10 Changing microfinance scenery -----	38
2.11 Expected outcomes of Micro financing in Ethiopia -----	39
2.12 Micro financing service-----	40
2.13 diversification of micro financing-----	41

CHAPTER THREE

3.1 Conceptual Frame Work of Marketing in Microfinance -----	42
3.2 Why a Market Orientation -----	43

CHAPTER FOUR

4.1 Presentation of Data Analysis -----	48
4.2 Degree of Customers Satisfaction with the MFI	
Products/ Services -----	62
4.3 Borrowing Procedure-----	62
4.4 Type of Loan provided by MFIs -----	63
4.5 Level of Interest Charged by MFIs -----	63
4.6 Size of Loan-----	64
4.7 Timelines of Loan Processing-----	64
4.8 Repayment Schedule-----	64
4.9 Maturities Period of Loan-----	65
4.10 Loan Collection -----	65
4.11 Availability of Product Information-----	66
4.12 Non group based Leans -----	66
4.13 Customer Handling -----	66
4.14 Accessibility of Compulsory Savings and Interest Paid to it -	67
4.15 Accessibility of Voluntary Savings-----	68
4.16 Training to New Borrowers -----	68

CHAPTER FIVE

5.1 Conclusion -----	71
5.2 Recommendations -----	79

References

Annexes

List of Table

	Page
Table 1: Percent of active clients who took loan from Non-MFI sources -----	49
Table 2: Use of loan by source in percent -----	50
Table 3: The amount of MFI loans requested/granted -----	52
Table 4: Necessarily of forming groups (in percent)-----	55
Table 5: Main reason's for not taking loans (percent) -----	57
Table 6: Five things that non-participants dislike about MFIs in percent -----	58
Table 7: Five things that dropouts dislike about MFIs -----	59
Table 8: Suggested improvements of the MFI programs -----	59
Table 9: Importance of compulsory savings requirement /percent -----	61
Table 10: Degree of Satisfaction with the Interest rate in (percent) -----	63
Table 11: Level of satisfaction with loan maturity -----	65
Table 12: compulsory saving (on percent)-----	67
Table 13: Compulsory saving access during emergency -----	67

Acronyms

AACSI:	Addis Ababa Credit and Savings Institution
AEMFI:	Association of Ethiopian Microfinance Institutions
EBS:	Equity Building Society
MFIs:	Micro Finance Institution
MMFI:	Metemamen Micro Financing Institution
MOA:	Mistry of Agriculture
NBE:	National Bank of Ethiopia
NGOs:	Non-Governmental Organizations
OCSSCO:	Oromiya Credit and Savings Share Company
OMO:	Omo Micro Finance Institution

CHAPTER ONE

1. INTRODUCTION

The microfinance field has come a long way towards identifying best practices based on the success of a few microfinance institutions (MFI) in simultaneously expanding outreach and improving financial self sufficiency. Many of these best practices are embodied in the increasing application of commercial principles in microfinance. While commercial MFIS have been successful in substantially penetrating urban and highly densely populated per-urban areas, only in a few cases has substantial rural penetration been achieved. As a result only 11% of the world's 240 million poorest families currently are served by MFIS (Daley- Harris, 2002).

The main challenge currently facing the microfinance field is to increase microfinance outreach for a significant number of unserved micro entrepreneurs and poor households, many of whom live in rural areas.

This paper gives more weight on the current status of micro finance market both in rural and urban area with special attention to appropriate products, loan size, its access and other operational issues. There are some of main stakeholders relevant to the research idea are incorporated for more reliable source of data and to make a inquiry implicitly. Those stakes are: dropouts, non users of MFI loans, active clients (currently) and the MFI higher officials are some of the sources to assess the current micro finance market in Ethiopia.

Many microfinance providers have avoided rural and especially agricultural finance, in part because of the negative past experience in

rural lending, especially directed agricultural credit programs. In the past, government and donors supported many growth and agricultural development. It is now widely acknowledged that subsidized credit leads to excess demand and that the benefits of receiving cheap loan are generally reaped by relatively wealthy and politically connected farmers rather than by the targeted smallholders. Experience has shown that reliable access to credit is important to small farmers and other rural micro entrepreneurs than the interest rate for production and investment decisions.

The success enjoyed by a few MFIS during the 1980s in simultaneously expanding outreach and improving sustainability helped governments, donors, and practitioners share a view that, microfinance was a critical tool for promoting economic development and reducing poverty. During the 1990, greater consensus than ever before emerged about what was needed to make microfinance as, industry "Best practice". The revolution in microfinance for the poor over the last two decades was led by practitioners who developed (methodologies) that achieve very high rates of repayment and cost recovery and also reach predominately poor clients, especially women (Robinson 2001).

Marketing is defined as "the process of planning and executing programmes designed to create, build and maintain beneficial exchange relationship with target audiences for the purpose of satisfying individual and organization objectives, (Kotler and Anderson, 1996, p. 37). Marketing connotes both a set of functional activities (product design and production, promotion, pricing and distribution) and a mind set that emphasizes the creation of customer value, both aimed ultimately at influencing customer behavior in specific ways.

If improperly done, however, marketing is unlikely to elicit the desired behavioral response and can stymie the achievement of an institution's financial and social objectives. Therefore, the paper is focusing on are the rural citizens addressed to get the loan in proper way from those MFIs? What about the product policy? How far the clients are satisfied by the existing products? Are those dissatisfied factors in product or services rendered were contribute the non MFI become strength full? And the like operational elements are proposed to do the research.

Micro finance institutions are often defined in terms of the following characteristics:

- i. Targeting the poor (especially poor women)
- ii. Promoting small business (which are foundations for large scale development)
- iii. Building capacity of the poor;
- iv. Extending small loans with out collaterals (group collateral might be)
- v. Combining credit with saving (initiation for saving highly encouraged)
- vi. Charging commercial interest rates. Microfinance institutions are often innovative and flexible in their design and implementation (Amha 2002).

It is clear that the formal financial institutions have played a little role in financing the developmental efforts in the rural areas. Because, they are clustered in urban conglomerations and concentrate on funding large enterprises at big guarantee .Therefore, the formal financial institutions are inaccessible to the rural poor especially in terms of distance.

In addition to this, the rural poor can not fulfill banking requirements to obtain bank loans (credit). Besides, that banking requirements for collateral or material guarantee and intrinsic banking procedure which

in most cases is very difficult for the poor to deal with formal finance institutions and the volume of loan demanded by small farmers are others the poor not appealing to the bank. Usually small farmers' poor require small loan size that is known as micro credit or microfinance. Thus processing of small or micro loan is not financially feasible and it is difficult to manage. As a result, the formal financial institutions such as banks are reluctant to finance the demand of small farmers or lend small amount of loans.

On the other hand, credits from informal sources are inadequate and the interest charged on such loan is exorbitantly exploitive. The failure of the formal financial institutions and the inadequacy of extremely expolitive or costly nature of informal financial sources of finance led to the establishment of specialized financial institution, micro financing institutions (MFIS) for extending micro credit to the rural and urban poor with the following objectives (Rural finance in Ethiopia, 2005 page 27).

- To extend the banking facilities to the poor men and women with focuses in rural area.
- To eliminate the exploitation of non- financial sectors
- To create opportunity for self employment and vase utilized human resources
- To reverse the age old cycle of “ low income, low saving, low investment and low income” in to expanding system of low income credit investment, more income more investment, more income and more saving ... (Rural finance in Ethiopia, 2005 page 71).

The initial micro finance scheme was started as village credit society in December 1976 in Jobra, Bangladesh. At first, credit arrangement were made with one of the near by banks and the economic program of the Chittagong university (K.G Karmaker, 1989). It becomes a model for

many MFIS throughout the world. Currently, according to the estimate of the officials of the consultative group to assist the poorest, there are 7000 providers of microfinance around the world. In Africa in addition NGOs led MFI, African governments of Kenya, Zimbabwe, Zambia, Rwanda, Uganda, Tanzania and in many of West African nations have played important roles in promoting microfinance institutions and micro financing service (AMha, 2001). But in Ethiopia it is the latest phenomena and the national Bank of Ethiopia has issued proclamation No 40/ 1996 on licensing and supervision of micro finance business. Several MFIs have been established both in rural and urban areas.

However not much is known about the performance of these institutions particularly in terms of their capacity to meet the growing demand for rural credit/ market.

- Therefore, the main objectives for this study were to assess the performance of microfinance in Ethiopia with particular reference to the financial products/ services of MFIS being delivered to the rural and urban. It aimed as understanding the limitations, constraints of the existing financial services and its products, loan sizes and distribution fairness.

The study purposively selected a sample of MFIs from the National regional states of Oromia, (Oromia Credit and Saving Share Company) and Metemamen micro financing institution (MMFI,) from Addis Ababa City administration,(Addis Credit and saving institution) and from southern Ethiopia, (Omo microfinance institution). All microfinance institutions are active in rural and urban areas to support agricultural led development effort of the government in the regional wise. All have been delivering the service to the poor using guarantee mechanisms peer

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pressure that does not require material collateral. For all microfinance institutions the study primarily depends on primary data and at certain level secondary data is reviewed.

The following operational issues are more addressed during data collection

- Loan and saving issues
- Non MFL loan
- Issues related to MFL loans
- Issues related to groups
- What clients like and dislike about MFLS
- Issues related to saving-level of interest
- Accessibility of loan (non users)
- New product/ services to be considered
- Others

1.2 Statement of the Problem

The micro financing institution in the world focus in providing credit to unemployed and small entrepreneurs in urban and rural areas. They concentrate on developing income generating activities by providing critically needed credit facilities and technical support to the poor and saving mobilization. Like their counterparts in other parts of the world, the mission of MFIs operating in Ethiopia is poverty reduction (Nana, 2002).

Poverty sometimes defined as the denial of choices and opportunities for a tolerable life. In fact the term "Poverty and poor" have direct relations. The usual definition is minimum standard of living for survival. It is this level of survival that referred to as poverty line. Lack of financing arrangements on the part of small farm owners has left most them below poverty line. In addition to this, lack of economic growth was seen a

consequence of shortage of micro credit or small working capital. So the main reason behind this research is answering the questions;

- Are microfinance institutions providing the product in different way to meet the interest of potential clients?
- Due to the small loan size, clients looking any non financial institution like idir, ekub and money lenders to borrow money at high interest rate?
- How about the distribution channel (accessibility) to get the loan and the service they provide to the client? What clients like and dislike about the current operation of microfinance market? Which were focus on saving interest they were collect from the balance, group collateral, loan during emergency time, and withdrawal of saving when needed, group formation ,the interest rate they were charged for the loan, voluntary saving and individual loans are some of issues to be included in the survey.

These questions address the main marketing of micro finance institutions. To answer these questions the assessment is made on the three governmental owned and one NGO affiliated microfinance institutions.

There have been very limited studies which assessed the marketing of microfinance activity in rural and urban areas. The assessment of the marketing of MFIs will help both micro financing institutions and the clients too. On the other hand, this in turn helps the government for the strategic expansion of microfinance at rural area.

1.3 Objectives of the Study

The objectives of the study are:

- To assess whether the products currently introduced by MFIS satisfy the potential clients or not
- To assess whether the loan size provided by micro financing institutions is meet the customer needs or not
- To assess whether the current operational elements, like, service charge, interest charge loan size, group collateral and others it require any improvement or not .Then what types of products to be suggested, what level of interest and saving will be easily affordable and the like operational issues for future carrier.
- To assess the accessibility of loan service on time and the customer satisfaction on service

1.4 Significance of the Study

This research is important and has significance in improving the operation of microfinance institutions. The study examines whether microfinance institution marketing satisfy the customer on operational issues or is it require improvements on basic parts of the operational needs. The study further tries to identify the main problems that hinder improvement of microfinance markets. The study offers recommendation for microfinance institution engaged on the market and those of microfinance Owners, Donors and Governments. It will help the MFIS to improve the products, loan size (amount) and the like operational issues to sustain the industry for a long period of time.

1.5 Limitations of the Study

The study gives more focus on the current status of microfinance market in both urban and rural areas. Those selected microfinance institutions are intentionally taken for the accessibility of data, the availability of voluntary agents for data collection and other factors. This poses some limitation. Due to the reasons, the study is not representing all regions marketing aspects. Further, the study was based on specific limited period of time. In addition, to big institutions like Addis credit and saving institution all scenarios of operations would be differ from that of small institutions like Metemamen micro financing. Even though, the difference is an opportunity to compare their market status independently. So, there is a variance in rural and urban as well as petty trade and medium trade.

The study does not criticize or appreciate the current activated regulation and rules set by the governing body. However, some of factors hinder the marketing expansions of microfinance are incorporated like board of director's intervention to operational issues. In addition the study does not give more focus on social and behavioral variables which can affect the marketing of microfinance. Finally, microfinance and related insurance packages are not included in this research.

1.6 Measurement, Materials and Methodology

Sample design: For this study the information like personal income saving, investment (capital) household assets, housing condition and the access of loan, the size of loan and its impact, the type of products and other information's are collected from MFIS client and non users of service (loan). For all institutions primary and secondary data were collected and reviewed, the questionnaire was developed and distributed

to the total of one hundred twenty four active clients, dropouts, non users and higher officials. The sample size taken is 5% of total population representing 2400 clients, non clients and dropouts. In case of MFI officials we have a total of 26 institutions at current and a sample of 15% was taken for study.

Survey Design

The method used in gathering the primary data is an interview and questionnaire administered by enumerator. On the other hand, secondary data were collected from the basic source of information related to MFIS in Ethiopia (Association of Ethiopian Micro- finance Institution) AEMFL, NBE and other sources.

Materials

The main thing in conduction of research is getting useful material. Materials are data, which were collected from the target group or from the secondary data sources and were used to carry out the research effectively. For this study, materials were collected under three categories: namely demographic, cultural and economic.

Demographic: This includes information like name, age sex occupation, religion, martial status family size and others. These data will be collected from individual clients of microfinance to identify and describe their conditions.

Cultural: this includes information like cultural cohesion, perception of credit with clientele, attitudes towards to traditional financial markets like idir, ekubs and etc.

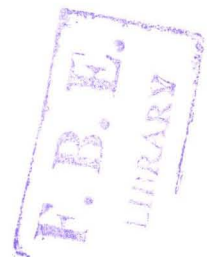
Economic: Economic growth is usually taken to mean the growth of the value of real income or out put. The increase in economic growth of clients can be measured by different variables or indicators.

Economic indicators can be quantitative or qualitative: among quantitative indicators income, saving investment, consumption of house hold assets, the interest rate charged on loan, adequacy of loan amount, the appropriateness of its duration, the repayment schedule and for what type of business they are used for an maturity period of the loan, the product type are some of economic quantitative variables. Whereas, qualitative type of indicators are service they gave or rendered accessibility of loan, customer orientation and treatment, timelines and group meetings frequency and etc.

- Savings: savings can have a benefit to the target group. It is whether, people can put aside after meeting their basic expenses. It can be defined as 'abstinence from consumption'. All microfinance company mobilizes three types of savings: group savings, center savings, and individual voluntary savings and reduces 10% of the credit size as part of their savings to guarantee repayment at the beginning. How the saving is attractive to promote financing of MFI?
- Household asset or durable goods: as there is increase in economic growth due to the accessibility of loan, i.e. increase in household disposable income; clients will use some of their income to consume durable goods or to buy household assets such as Radio television, chair, table, bed etc. Thus the increase in loan size and loan access can bring the clients for further basic needs.
- Adequacy of loan duration and repayment of MFI finance in economic parameter. One such parameter relates to the adequacy of the amount of the loan that is being provided by the MFIS.

Loans that are not adequate to finance the intended activity may end up being diverted into uses that involve lower outlays or even squandered. The appropriateness of the duration of the loan is another parameter that is very often used. Maturity periods not congruent with gestation period of the activity financed by the loan may lead to delinquency. The research gives certain weight to the duration and repayment cycle of the first from Metemamen microfinance and the same secondary data from that other of three.

- The purpose of the loan: the different loan obtained from the MFIS are basically used for different purposes including a variety of agricultural activities such as for the purchase of animals and farm inputs,, to start new business op expand existing ones. All related issues are raised discussed under the research ideas.
- Borrowing procedures and level of interest: Another factor which might potentially deter households from using the services provided by an MFI is the transaction cost associated with the loan. How much of they are satisfied and dissatisfied.
- Interest is one of the areas where the research focuses on how and at what percent they are required to get loan. Are the levels of interest deserved by the client or is it pushes them to non MFI which is highly charging (more than 50% of interest).
- Size of loan requested and granted, timeliness of loan processing and disbursement, maturity of loan period, loan collection methods, availability of product information are same of variables during the research implemented.



1.7 Method of Data Collection

Two methods of data collection were used to gather primary and secondary data from the client and the institutions respectively.

Questions which either directly or indirectly try to get the, mentioned materials are put together in to a questionnaire and were administered by the enumerator. The interview questionnaire administered by the enumerator is selected because of most of MFIs clients are not educated and, on the other hand, questionnaire responded by institutions were targeted to get reliable information.

For both the questionnaire prepared in English and translated to Oromifa and Amharic language in case of client to make easier for responding what they feel and this will be helpful to the clientele and enables them to respond easily.

The necessary secondary data was collected from personal social economic data kept by the companies.

1.8 Method of Data Processing

After the data is collected from both primary and secondary source, the processing started was done immediately using method of manual editing. Classification of data was made to process the raw data to make it ready for analysis.

1.9 Method of Data Analysis

Descriptive method of data analysis used to analyze the processed data. All the necessary tabulation percentage development, measurement of central tendency and data transformation was carried out.

1.10 Geographical Area Coverage

The research give more focus on the area of three regions such as Addis credit and saving institution from Addis Ababa, Oromia credit and saving share company and Metemamen micro fiancé institution from OROMIA regional state and OMO micro financing share company Wolaita branch from south nations and nationality region. In case of OCSCO and Metemamen institutions Adama Worda, Wonji, Kurifitu and surrounding villages are selected to collect primary data from active clients, dropout clients and non users, on the other hand, Yeka sub city for Addis and Wolaita Zone for Omo micro finance selected respectively. The total sample of 60 active clients fifteen from each, 40 dropout clients ten from each 20 non users five from each selected for primary data collection. In the meantime, all institutions general managers were required to provide primary and secondary data when required.

CHAPTER TWO

2. RELATED LITERATURE REVIEW

2.1 Multiple usages of Financial Institutions

Some of the multiple usage of financial institution among Africa MFI clients is driven by clients transitioning between two MFIs. But many are also “Patching” loans together to achieve the size of loan that they believe their business requires. Others are driven to borrowing from several MFIs in the face of emergencies, to assist with consumption smoothing, to refinance existing loans or to maintain the level of capital in their businesses as they repay the initial loan from the first MFI.

This sensitive area to multiple borrowing was, perhaps unsurprisingly, one of the two areas where there was a significant dissonance between the quantitative and qualitative findings. The qualitative research suggested that the level of multiple usages of financial institutions was much higher than that was reported by the quantitative survey enumerators. The quantitative study reports only around 15% of those using financial institution for borrowing were using more than one institution. But only 12% currently had more than one loan of this 12% around a quarter have taken out one loan to pay off another (Paul Mosley, 2000).

The qualitative study noted that multiple borrowing was common and driven by (in order of importance) (Paul Mosley, 2000).

- To make up the required capital (by” patching” loans together)
- To finance another loan (repaying the loan or obtaining required up front savings)

- To finance critical demands and emergencies
- Consumption smoothing
- To take business opportunities
- To avoid fluctuation in business stock
- To finance different businesses or projects (with out- co-mingling loans)
- Greed, or the intention to defraud

From the above it is clear that, as in Bangladesh (Chaudhury and Main, 2002) it is important for MFIs to distinguish between opportunity and distress driven multiple borrowing. If MFIs are able to develop effective assessment systems to make this distinction, the former presents the prospect of more business both for the MFI and its clients. But again, in the context of borrowing to finance emergencies (often driven by the need to finance school fees and health related expenditures), MFIs also have an opportunity.

The use of several financial institutions in order to save is less sensitive and more common (in around 28% of cases) not least of all due to the prevalence of compulsory savings requirements as a prerequisite for obtaining a loan. Clients are generally unwilling to put more in to compulsory savings accounts (or indeed a voluntary savings account with the same institution) than the minimum required accessing the loan. This is because they fear of losing the money under the group guarantee system so they will often have a current or savings account with another financial institution instead with the growing number of ATMs available to lower income clients; many are opening accounts to use this accessible and flexible service (RBI, 1989).

2.2 Types of Financial Institution

There are formal and informal financial institutions in market of every corner in the world.

2.2.1 Formal Financial Institutional Structure

Broadly speaking, the strategy and policy towards the development of microfinance in world that is currently adopted is based on linking the informal sector with the formal financial system, particularly the vastly developed banking network across the nations. The banking system (commercial and cooperative banks) has been, over the year, providing microfinance under various poverty alleviation programs. In fact, India has the largest network of bank branches in the world and it is one of the few developing countries that have strategically promoted institutions for providing financial services to the poor. Since the beginning of the early 50s, the government of India, through the reserve bank of India (central Bank of the country), has been concerned to provide affordable finance to the poor and needy in competition to the moneylender. This has, over the years, evolved as a comprehensive system of the state support whose poorer component is now called as microfinance (Paul Mosley, 2000).

In this was initially operated through cooperatives which was hoped to provide a positive institutional alternative to the moneylender himself, something which will compete with him, remove him from the forefront and put him in his place (Government of India, Vol. II pp.481-2). But, by the late sixties the cooperative lost ground to commercial banks that were nationalized in July 1969.. In the process of providing affordable finance to the poor, most of the credit has been extended under the concessional interest rates that could not reflect the true rates of interest. As the Report of the Committee on Agriculture Credit Review (1989),

under the chairmanship of prof A.M Khushro has provided a critical judgment on arrears and between state sponsored institutions as there was little to choose between tweeledum and tweedlede (RBI, 1989, Paragraph- 1.35).

2.2.2 Informal Finance and Traditional Views

Informal forms of lending—particularly moneylenders— are stereotyped as being evil in many cultures. Poets, prophets, playwrights and politicians have pointed accusing fingers at informal lenders and questioned the comfort of their afterlife since the beginning of recorded history. Individuals as diverse as Cicero, Shelley, Shakespeare, Marx the prophet Mohammed, and writers of the Old testament have vented their spleens on the supposed evils of money lending pejorative and emotive terms such as “monopolist, “usurer, “shylock,” loan shark, and “exploiter” colour discussions of this topic. (Nelson 1942) describes other area in development where anecdotal horror stories are told and retold so often to nurture traditional view (Nelson 1942). For my tastes, too many discussions of informal lending include racial and ethnic undertones reflecting the dark side of human nature; for example, biases against Jews in Europe, overseas Chinese in East Asia, Indians in East Africa, Ibos in West Africa, and people from the middle East in Latin America. These biases also stem from the natural tendency to fear and is like an activity, such as financial intermediation, that is poorly understood and to some observers, mysterious (Hayak 1989).

2.2.3 Sophisticated but Unregulated Institutions

In several countries, including the Dominican Republic Guatemala, Pakistan and India, sophisticated financial institutions exist that are informal only in the sense that they are not regulated. These institutions act like commercial banks and are often located in bank-like offices that appeal to middle and upper class clients. They exist primarily to avoid taxes or regulations. In some cases they may be affiliated with banks through joint ownership or holding companies. Several recent studies suggest that these unregulated organizations charge reasonable interest rates and operate with modest transaction costs (Nayar 1982, Vogel 1988, Zinzer and others 1986).

2.2.4 Types of Informal Finance

Finance exists because of heterogeneity among firms and individuals and because of the specialization and differences. This in turn, results in a variety of financial needs that are partly met by a multiplicity of informal arrangements. While the stereotyped moneylender receives most of the publicity, a large variety of other arrangements handle most informal financial transactions.. Some of these arrangements are centuries old, while other systems of informal finance are constantly evolving as the contours of the society and the economy change. The endoscopes of arrangements defile simple classification, and it is unusual to find a substantial number of these arrangements that are identical a testimony to the flexibility and creativity involved informal finance. For purposes of illustrating the variety found in these systems, I will briefly describe ten types of informal finance. Although I treat these ten types separately, it is common for them to overlap and also to be intertwined with other production or marketing activities (Sanderatne 1981).

Some of the informal institutions are:

Moneylenders

Individuals who spend most of their time lending money- moneylenders- are significant sources of loans mainly in Asia. Typically, their loans are granted for short periods are unsecured by collateral, and are extended to long term clients. Most money lenders operate on a small scale, extend loans mainly out of their own funds, and restrict lending to less than a hundreds individuals. Moneylenders typically charge interest rates that are high relative to other lenders but extend loans quickly impose on few transaction costs on borrowers. These lenders operate in localized markets and often have highly personalized relationships with borrowers.

The main advantage moneylenders have over formal lenders is the comprehensive information they accumulate about their clients through day- to-day contact. Timberg and Aiyar (1984) found as extreme example of this when they asked an Indian money lender how he decided to take on additional clients; he responded that he had never had a new client. Understandable, the proprietary nature of this information causes moneylenders, as well as other informal lenders who rely heavily on in sided information, to be leary about sharing candid information about their operations with researchers (Chandavarkar 1986).

It has been formed Merchants can generally sell more fertilizer or purchase more r ice, example, if they also offer loans to their customers. Like the moneylender, merchants have the advantage of and sales of commodities. Under normal conditions the volume of loans provided by merchant's increases as commercialization expands.

Some itinerant peddlers also provide small short-term loans to customers. In the Philippines, peddlers- often called Bombaies- sell items as diverse as umbrellas, electric fans, cosmetics, and clothing door-to-door in rural areas. They often make their village rounds on a daily or weekly basis to sell goods take orders, and collect installment payments on previous purchases. Fruin (1937) reported similar services provided in rural areas of Indonesia during the 1930s by 'installment chinamen.

Pawnbrokers

Another form of informal finance in pawning one of the oldest forms of leading. Some pawnbrokers work full-time at this occupation, whereas other pursue it as a sideline to money lending or marketing. In several countries, Indonesia and Sri Lanka, for example, some pawnshops are affiliated with banks.

Distinctive features of pawnshops are that they typically make small loans for short period and resolve the loan collateralization problem inexpensively by requiring borrowers to exchange collateral physically of loans (Lamberte 1988). Unlike banks, money lenders, and traders, pawn brokers need almost information about their borrowers unless they are wary about receiving stolen goods. The pawnbroker realizes revenue from interest on loans and from the difference between loan amounts and sales receipts from items received as security on defaulted loans. Contrary to conventional wisdom: Bouman and Houtman (1988) argue that most pawnbrokers pre to have individuals redeem the items they pawn, as the improves the chances of their continuing clients.

Some individuals in the Philippines make their living primarily by conducting informal pawning operations combined with peddling items

door to door that are not redeemed. These individual may have loose working relationships with formal pawnshops or with relatively wealthy people who occasionally provide them operating capital. They may also combine their pawning activities with selling non- pawned goods door- to door and offering installment arrangements on these sales (Adams and Sandoval 1989).

Loan brokers

Another type of informal finance is carried out by loan brokers who facilitate contacts among people with money to lend and borrowers by trading on inside information about potential clients. Typically, loans handled by brokers are relatively large and of a longer term than are most informal loans. Virtually anyone can enter the business that is able to assemble inmate about potential clients. Because borrowers or these brokered loans often do not high. As Larson (1987) points out, some of the lenders in Bolivia insist on collateral such as real estate before making a brokered loan.

The broker is usually on a principal in the transaction but merely arranges contacts between lenders and borrower. Some brokers may also provided collection or guarantee services and thus become more like principals than agents.

Land lords

Although the practice is less common now than previously, some landowners still provide their tenants with loans. The main reason of this is scope economics. These loans facilitate access to labor and entrepreneurial skill that might otherwise be difficult to employ or manage. Typically, landlord lending declines in relative importance with land reform and with the expansion of other of formal and informal finance (Sacay, Agabin, and Tonchoco 1985).

Variant of this occurs when landowners who borrow money transfer to a lender usufruct rights over land, orchards, or fishing facilities for a time until loans are repaid. This arrangement is common in the highlands of Ecuador and among cacao farmers in Ghana (Adejeboye 1969). It is also increasingly found in the Philippines, where farmers may pawn the title to some of their land and transfer use rights to the lender for a time to obtain relatively large loans to finance employment abroad by a family member.

Friends and relatives

Perhaps the most common form of informal finance, both in terms of number and value of transactions, is loans from friends and relatives. In some countries these credits make up half or more of all informal loans. Many of these loans involve no interest or collateral, they may be large or small, and many have open-ended repayment arrangements. The most important feature of many of these loans is reciprocity; the expectation that the borrower is willing to provide a loan to the lender sometime in the future (Plattcau and Abraham 1987). In cases where the individual involved has scant access to other forms of finance, the reciprocity may be an important way of managing uncertainty and risk through establishing and strengthening interpersonal ties.

Money guards

Another form of informal finance is the money guard, a responsible person who agrees to safeguard cash for individuals. Graham and others (1988) report finding money guards in Nigeria. Malaney and Ahmed (1988) also found them in Bangladesh, and Bouman and Houtman (1988) report similar arrangements in India. Almost the entire reason for money guard is that they offer a secure place to deposit funds. In most cases these deposits earn no interest, although money guards may give

depositors token favors or gifts. There are no restrictions on the uses money guards may make of deposited funds. In some cases depositors fed guards are doing them a favor by holding their money, and the amount of money deposited by cash individual is usually small.

Saving important form of informal finance is savings groups. These consists of individuals who either regulatory or irregularly deposit funds with a group leader (see for example) Begashaw 1978 and Maloney and Ahmed 1988). In most cases these groups are formed spontaneously, but in Thailand a government agency the Community Development Department plays a role in organizing such groups. The main problem these groups resolve is the pooling of saving and it is not uncommon for these mobilized funds to be deposited in banks. While these groups may collect funds regularly, they do not distribute them among members through any systematic rotation. These groups are part of a large class of informal groups.

2.3 Group Individual Lending

The pressures group lending were highlighted in the different study which found that while group lending practices still dominate the market (accounting for two third of respondents' loans), the clients' preference is in 81% of cases, for an individual loan. Indeed the, the longitudinal study seems to suggest that clients are moving to individual- based lending over time individual loans are usually preferred because of the risk of members defaulting/ being forced to rely on other persons and because clients prefer individual responsibility. Individual loans are, however, typically collateralized, and clients have very clear views on and issues with current collateralization practices in every corner of Africa.

There was a common perception that MFIs look collateralized household assets far in excess of the value of the loan they were securing.

Many of the mainstream banks, non-bank financial institutions (including Housing finance Company in case of Uganda) and indeed the NGO-MFIs are now offering loans to lower- income salary earners. This largely removes the need for collateral and with the right agreements with employers in place, is a relatively low risk lending opportunity. The rapid growth in this sector is like to have important substitution effects on the MFIs traditional business since many of their traditional borrowers are finding it cheaper and more convenient to borrow through an employed relative than to take group-based or heavily collateralized individual loans. (WRIGHT and RiiPY)

2.4 Benefits of Product Development for EBS Clients

A case to be reviewed

Donors as silent partners in MFI product development; the case study implemented by micro save of Africa describes how donors successfully supported MFI produce development. Initiated by Swiss contact (a nongovernmental organization) led by Micro-Save Africa (a donor-funded project providing product development service) and supported by DFID, EU, UNDP, and Afri Cap, Equity Building Society's product development capacity has grown rapidly.

By December 2002, Equity Building society (EBS) emerged as one of Kenya's leading microfinance institutions, with over 155,000 savings clients and 41,000 borrowers. Although once insolvent, EBS transformed itself in to a profitable financial- service provider by rigorously focusing on the needs of its clients- in particular, by developing a wide range of market-based financial products and services.

Strong technical training laid the groundwork for EBS's strategy of customer-oriented product development. The NGO Swiss contact awarded EBS an initial grant of US\$150,000 with which it here Micro Save-Africa in October 2001 to intensely train EBS's staff in product development. Applying what is learned, the staff embarked on a systematic program of product development, tailored to the needs of its clientele. The resulting popular products have effectively reduced EBS's client drop-out rates, attracted new clients, and expanded its outreach. The transformation from a product-led to market-led institution has also improved EBS's institutional stability and financial sustainability.

Setting the stage

EBS was established in 1984 as a registered building society, and was insolvent within a decade. In a 1993 institutional rating of EBS, the central Bank of Kenya noted inadequate board and management supervision, as well as unsatisfactory asset quality. EBS's capital had become fully eroded by accumulated losses, and its deposits were being used to meet daily operating expenses. Time had come to turn the institution around and refocus its mission

Central to the effort was the strong leadership of CEO John Mwangi, and finance and Operations Director James Mwangi. Their redirected EBS's mission to focus, for the first time, on microfinance clients. EBS evolved from a building society dedicated to financing mortgage, to building society institution committed to providing a variety of flexible and responsive financial services to low-income clients.

In 1999, EBS started to work with international partners initially with the Micro-Enterprise Support programme (MESP) of the European Union

(EU) and the micro start program of the United Nations development program (UNDP). Partnerships with Swiss contact and micro save- Africa (a donor- funded provider of product development service) followed in 2001. More recently, EBS has established partnerships with the UK department for international development (DFID) and the Afri Cap Microfinance Fund (Afri Cap)

Building product-Development capacity

In October 2001, Swiss contact contracted Micro save Africa to train the staff of EBS in microfinance market research. According to Ralph Engleman of Swiss contact in Nairobi, one of Swiss contact's goals was to help EBS refine its product portfolio. Together, they decided Micro Save - Africa was the region's best technical service provider. Some 26 EBS staff Mwangi, attended the market research and fieldwork training in product development. The goal was to build EBS's internal capacity to refine and develop its products.

After the training EBS established a product development team of seven staff members. Their commitment during training convinced. Micro Save- Africa to enroll EBS as an Action research Partner (ARP) Micro Save- Africa, with funding from various donors, provide its ARPs with additional technical services free of charge. EBS itself is covering its other program - related expenses.

As an ARP, EBS agreed to:

- Commit senior- management time to the program
- Nominate a " Product champion " to supervise and guide its action - research program

- Provide reports on the progress it was making on an agreed work plan every two months

In return, Micro Save- Africa agreed to assist EBS in :

- Developing a process by which it could cost products
- Providing quality control for an EBS study, which also looked at its success factors and problem areas?
- Reviewing its portfolio of products against client demand
- Creating and adopting new products through a systematic product development process

To accomplish these commitment, Micro Save- Africa provide EBS with further training, specifically in

- Product- development market research
- Pilot tests of products
- Product monitoring and final evaluation

The results were striking EBS's Research and product Development department became more effective and productive, launching new efforts to:

- Cost new products
- Refine existing products
- Development and improve its operating systems

The improvements in EBS's product development led to even more fundamental changes in how it does business. In particular, a recent focus on strategic marketing is proving excrementally useful in increasing its market share, enhancing operational efficiency and maximizing the return on its assets.

As of December 2002, the audited financial statements of EBS showed a profitable institution with over 155,000 depositors, using five different savings products. Deposits were valued at approximately US\$ 27.5 million (2.1 billion Kenyan shillings), and its loan portfolio at approximately US\$ 14.4 million (1.1 billion Kenyan shillings). Outstanding loans from EBS were held by 41,000 borrowers. By June 2003, these numbers jumped to 180,000 depositors and 56,000 borrowers, who were served by 12 branches and 24 mobile units. The institution had 2,469 shareholders, 256 staff members, and 8 directors.

In early 2003, external funding to EBS began to be coordinated through a steering committee of EBS's funders (donors and investors) and Micro Save-Africa. External funding (from Swisscontact, DFID, EU, and Africap) has concentrated on capacity building and (from UNDP) on systems development. This method of managing its funding has helped increase the efficiency of all EBS's programs.

What factors led MFI to success

1. Donors left product development to the managers of EBS. Donor involvement in product development at EBS has focused exclusively on helping it obtain quality training and other technical assistance. Actual product development and delivery are left to EBS management. Donors also do not push EBS to offer products and services or work in new regions before it is ready. "EBS is in the driver's seat," observes Micro Save-Africa Director Graham Wright.
2. Product design is driven by client demand. The poor are not homogeneous. Therefore, the challenge is to develop a variety of flexible financial services to meet the diverse needs of the poor—that is, with terms suitable to client cash flow. Such tailored

products offer the poor the most help in managing the risks they face in their daily lives.

3. EBS put the basic institutional capacity in place needed to embark on product development. The commitment of the EBS board and management ensured that adequate staff and systems were allocated to the product development process. Moreover, management understood the capacity issue and realized it would need additional staff and system to implement changes. The early assignment of a "Product champion" was a crucial part of the additional staff.
4. EBS followed a systematic product development process: The methodology of Micro Save- Africa helped EBS avoid common pitfalls, such as higher- than anticipated setup costs, products with limited demand, and a staff insufficiently trained to market and deliver new products. Most important, the avoided product proliferation. EBS and Micro Save- Africa shoes a strategy to reprice and repackage existing products before embarking on the development of new ones.

Benefits of product Development for EBS

EBS is already reaping the benefits of its product development. These include increased staff satisfaction, customer loyalty, developmental impact, and profitability.

Stability, EBS's new, wider range of products has proven highly popular among clients. Consequently, EBS enjoy greater client retention, increased new-client number, improved outreach and higher long- term sustainability.

Efficiency and productivity EBS's new training and client focus has improved its management's view of costs and cost control, which has resulted in increased efficiency and productivity. EBS management has also;

- Established performance benchmarks for individuals, branches and the institution as a whole
- Focused staff evaluation on regarding performance
- Set up a new organizational structure that has steered EBS through its client- focus transition and will lead It in to the future.

Profitability: EBS responded to market and field research by revising its price structure by:

- Decreasing its interest rate on fixed deposits and simultaneously matched competing rate, making the product profitable
- Revising the structure and marketing of its loans
- Tracking its interest- rate margin on a weekly basis
- Adjusting its account chart to reflect income and costs on a product-by- product basis

These changes produced a 35% increase in deposits and a 47% increase in loans in just one year. Together with other capacity- building measures, in pretax, year- over-year profits in 2002, even though total assets only increased by 37% for the same period.

Wider variety and flexibility of products; EBS now offers a diversified product menu tailored to client needs. For example, its Jijenge (meaning "build yourself") product is an increasingly popular, contractual savings plan. It allows a customer to commit to save a specific amount of money

within a certain period for a specific purpose, such as school fees or business expansion. The client, not EBS, determines both the amount and the timeframe.

Clear product terms; Market research made EBS realize it needed to remedy the misperception that its loan prices were too high. This was largely because EBS stated its rates on an annual, declining – balance basis, while its competition used a flat, monthly interest rate on the original balance. Consequently, EBS's rates, which were actually lower, appeared higher. The remedy was that EBS began using "client language", printed brochures outlining product changes, and prominently advertised its fees.

Improved access, EBS' commitment to its customers is evident in its expanded operating hours. No longer following traditional banking hours (9:00- 15:00), it opens at 8:30 and closes at 16:00.

While product development is not an obvious donor activity, EBS's experience illuminates some important lessons for donors looking to support such efforts by MFIs. It is vital for a donor, as a 'silent partner, to

- Help identify and connect the client institution to quality technical expertise
- Look for partners that explicitly seek feedback from clients when designing products
- Support the organizational changes necessary for market- led product development, such as staff training and information systems improvements
- Initiate and encourage information exchange between financial institutions and donors to maximize the replication of successful product development efforts.

- Take a patient, long- term approach to funding that rewards institutional performance and outreach
- Recognize that refining or introducing new products is a complex process that takes time.

2.5 Increasing Availability of Savings Services

With the entry of formal sector commercial banks in to the lower income market place, they have significantly reduced their minimum balances. In particular, having taken over Uganda commercial bank Stannic bank appears set to capitalize on UCB's old branch network by using it to attract large numbers of savers and serve them using ATMs, part of this effort, Stannic has started an extensive repositioning and re-branding campaign that is already paying dividends UCB is beginning to lose some of its old negative association and to be seen as a modern fast bank. The implication of this, if stable manages to roll our new product and systems throughout the branch network are likely to transform the market. It is possible that Stannic with both deepen and broaden access to savings services to a level where they will provide a very strong challenge to most other players in the market.

Commercial banks and more recently consumer lenders are entering the market place increasing the pressure on traditional MFIs in their usual markets. They are doing this by offering alternatives to usual MFI products, either directly (in terms of savings services and in the case of orient group based loans) or indirectly (through salary- based loans which are beginning to be used as a substitute for group or household asset collateralized loans) the comparative and competitive advantages of bank (particularly in areas like salary based lending) are likely to force NGO-MFIs in to other markets in particular.

2.6 Product Diversification

The very poor seek diversified or flexible loan terms and conditions such as diversified loan size, flexible repayment period, repayments frequency, availability of loan on time, diversified collateral, etc. Apparently much remains to be done on this front. But meeting all the demands of the poor is also engulfed with a lot of problems, most important of which is that it involves cost to the institution in terms of, for example, increased number of staff who can efficiently respond to all existing as well as emerging demands.

The loan size is currently limited to a maximum of Br. 5000[¢], with a view to limiting it to the requirements of the very poor. But some, having been clients to MFIs and having developed their business skill, may come to need loan size beyond this limit. No one currently caters for this demand. In the absence of any alternative, borrowers would be forced to seek the additional money from such sources as private money lenders at excessively high cost, which, in fact, discourages investment activities (AEMFI 2002 P 24).

2.7 Interest Rates Unaffected

Clients have repeatedly cited interest rates as one of the top determinants of their choice of the financial service provider from which to borrow. But one study in Africa reveals that only 11% of the sub sample of those currently borrowing had "shopped around" multiple institutions prior to taking their loan in Africa. Furthermore, a few respondents that had loans at the time of interview have changed supplier in the past 2 years based on price. Clients feel that the prices they are paying for loans are high, but are be unable to 'shop around'.

The lack of transparency or communication of pricing prevents clients from differentiating between suppliers on this basis. (WRIGHT and Riipy)

2.8 Saving

Some argue that the poor need saving services more than credit because: Most people want to save most of the time, while they do not want to borrow all the time. Many people may not want to borrow at all because they feel that saving before undertaking major expenditure is less risky, or for moral or religious reasons (See Hartmut Schneider 1997: p. 24).

The form of holding wealth or capital formation, which a rural economic unit chooses, depends on the return, risk, convenience and flexibility or liquidity of the alternative investment opportunities. When saving "in cash" is not convenient, the poor resort of saving in real asset (crops put into storage, a house constructed, a pig fattened; hence the idea of 'piggy bank': a tree planted, or children raised (and educated) as an investment in human capital, helping one's neighbors, and putting on a feast to raise claim for future assistance (social capital) (AEMFI 2002 P 29).

2.9 Consumption Loan

Two approaches have been advocated on the role of credit in poverty reduction. While supporters of the income generation approach maintain that credit should be provided mainly to the entrepreneurial poor to enable them to finance specific private income-generating activities (i.e. credit can only be a 'means' to develop such activities, and not an 'end' itself), proponents of the so-called 'new' minimalist approach argue that credit programmes would still be helping the poor fight poverty by giving credit to any poor person (including those borrowing to meet irreducible consumption needs) who is able to repay a loan without dictating to that person how and on what the loan should be used.

But just because a loan is used for consumption purposes does not necessarily imply that repayment will falter. A significant number of the poor households in developing countries experience real constraints in the financial markets in the sense that they are unable to borrow as much as they would like at the prevailing transaction terms. Given that most of the poor attempt to borrow in order to finance consumption of food and other basic goods that enhance health and labour productivity, such constraints may force poor households to eat less food or cheaper foods with lower nutritional value. Also, when consumption levels are already precariously low, they may be forced to cancel or postpone profitable investments or sell assets, sometimes at a substantial loss, to meet irreducible consumption needs. This may lead to greater impoverishment in the long run.

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Some important conclusions can be drawn from the above discussion.

- To do well-served by the credit delivery, important demands of the poor need to be met. For the poor require a loan that is flexible enough in terms of repayment period and repayment frequency, reflecting his unreliable market or the risky business conditions he is involved in, availability of loan on time depending on the seasonality of his business, diversified collateral, etc., is necessary.
- Diversifying the lending methodology away from the current "group methodology" into others like village banking and possible to individual lending may help, for the group lending, on the one hand, tends to ignore the very poor and, on the other hand, have no room for those who can borrow on individual bases.
- In order to make advances on both fronts of reducing the rate and depth of poverty, and thereby to contribute positively to meeting the target of reducing poverty indicated in the Poverty Reduction

Strategy Paper (PRSP) as well as the 1995 Copenhagen Social Summit global target of reducing poverty by half by 2015, we need to help the very poor come out of poverty. This would mean delivering enough credit to the very poor.

- The poor cannot be served very well by the delivery of credit alone. Saving services constitute an important part of the demand of the poor. Evidence in many cases indicates that most poor people want to save most of the time, while they do not want to borrow at all.
- Credit must, above all, be accompanied by some kind of marketable skill development, which the poor seriously lack. Credit alone can only increase the 'scale' of existing activities rather than enabling the poor to move into new or higher value activities. Given the poor market condition in rural areas, this gives rise to easy market saturation, which diminishes potential profitability. Some kind of cultural transformation may also be called for at this particular juncture in order to change the attitudes of some otherwise very poor people who are reluctant, due to obvious cultural reasons, to engage themselves in non-traditional activities which are much more rewarding indeed.
- The argument that establishing a market-based interest rate hurt the poor has no logical justification because interest is not an important part as an input in the total production function of the poor; and in any way, given the objective reality on the field; we can not guarantee that the 'subsidized' credit actually reaches the targeted poor.
- Consumption loan is not necessarily a bad proposal. In particularly serious and hard conditions, such arrangements may rescue the poor from eating less or cheaper food with lower nutritional value,

cancel or postpone profitable investments or sell valuable assets, at a substantial and permanent loss.

A different form of loan broker operates widely in rural areas of Asia, Africa and others. These brokers obtain loan application forms from banks help literate people fill them out, obtain necessary signatures and guarantees, and also allocate bribes necessary to overcome barriers to borrowing (Maloney and Ahmed 1988). The broker is commonly rewarded through a share of the bribe or a share of the loan and acts as a legal buffer between the payer and the receiver of the bribe (AEMFI 2002 P37).

2.10 Changing Microfinance Scenario

Over the last decade, the microfinance landscape has changed rapidly with the setting – up of many new MFIS, NGOs transforming in to banks, state sponsored banks actively participating in the microfinance activities and greater diversification of services in to other areas. Increasing emphasis on attaining sustainability and outreach of MFIs made the institutions commercialize their operations in a greater length. Thus, over the last one and a half decade, the very concept and coverage of microfinance has undergone a significant change. Thus, in a broad sense, it refers to small scale financial services, primarily credit and savings provided to people who farm, fish or herd; who operate small enterprises or micro- enterprises and produce, recycle, repair, or sell goods; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals or machinery and tools; and to other individuals or groups at the local levels of developing countries, both rural and urban (Robinson, 2001) . The Report of the Task Force (1998) on Microfinance appointed by the National bank defines microfinance as ‘provision of thrift, credit and other financial services and products of very small amounts, mainly

to the poor in rural, semi-urban and urban areas for enabling them to raise their income level and improve living standards. Following this definition MFIs in India can be classified into two major sectors- financial and non-financial: Commercial banks, regional banks and etc.

2.11 Expected outcomes of Micro Financing in Ethiopia

There are three possible outcomes of micro financing. These are enhanced poverty, maintained poverty, and reduced poverty. Enhanced poverty takes place when poor borrowers' livelihood becomes worse off after using the loan from micro financing because of their inability to generate adequate income for meeting their loan repayment obligations and their household subsistence requirements. Under this condition, poor borrowers may be forced to sell their existing assets, if any, or reduce their consumption to meet their loan repayment obligations. This type of lending is impoverishing and may arise from untimely disbursement of loans, and/ or inappropriate term to maturity disbursement of loans, and / or inappropriate term to maturity (e.g. oxen loan with one-year maturity) including inappropriate client selection in which case the loans are used for consumption without any prospect for future income.

The second expected outcome, that is maintained poverty, is achieved when the poor borrowers are at least able to meet their household's daily subsistence while at the same time meeting their loan repayment obligations on time. Under this condition, microfinance clients are not able to make any saving from the income generated for investment in productive assets, or activities that would generate a sustainable income in the future. The livelihood of the clients remains the same, but would not be worse off after the loan.

The third outcome is one under which poor borrowers will be better off because of reduced poverty. Under this outcome, poor borrowers are able to generate adequate income that would meet the subsistence requirements of the household, while at the same time meeting their loan repayment obligations. The clients are also able to make some new productive investments or investments in the already existing business to improve productivity. The impact of the credit will be reflected in increased business activities, and improved living conditions such as better health and education for the household, improved food pattern and housing.

Currently, do MFIs in Ethiopia monitor the impacts of their micro financing activities and recognize the conditions of their clients after their first and follow-up loans? Do they know the sources of the repayment? There are pieces of evidence where some borrowers are forced to sell their animals or borrow from informal sources to meet their loan obligations. Several of their clients are also frequent borrowers. Is the condition of the frequent borrowers improving or are they simply in a vicious circle?

Most of the MFIs do have socio-economic baseline data of their clients, but these data are not used for periodic assessment of the impact of their progress operation. (AEMFI 2003 P12)

2.12 Micro Financing Service

The Micro finance service products in Ethiopia are limited to short term credit of not more than one year, compulsory and some voluntary savings. The lending approach is also group based. Even though MFI are required to operate within the legal frame work, longer-term, development cannot be expected unless different approaches are

experimented. The development of the legal framework itself requires research products for expanding the scope of micro financing in the future. Therefore, MFIs in Ethiopia need to experiment on different approaches and serve products in order to expand their scope of services and service products.

Moreover, the provision of micro finance service should not be considered the only approach towards poverty alleviation. The basic principles of micro financing as a business as well as the various institutional and socio-economic factors related to the poor are impediments to the participation of the poor in micro financing activities. Therefore, other measure that directly addresses the non-entrepreneurial poor and brings them to the mainstream of micro financing need to be in place by the government or NGOs whose main agendum is poverty alleviation.)

2.13 Diversification of Micro Financing

Diversification refers to both product and activities financed by the MFIs. The major proportion of the loans from MFIs in Ethiopia directly goes for financing of agriculture and agriculture related activities. However, the activities both in the agricultural and micro credit activities are not diversified. Even though the loan products are encouraging, given the limited experiences of MFIs, there is a need for product development and activity diversification. The service delivery methodologies and the products are supply-driven. There is very little innovation in the methodology of service delivery mechanisms. Clients are forced to fit into the procedures of the MFIs. There are no market and impact assessments for business development. The MFIs, therefore, operate under the state of high risk from the natural environment and market fluctuations. Therefore, diversification is a challenge for all MFIs, which they have to face for their existence (AEMFI 2002 P12)

CHAPTER THREE

3.1 Conceptual Frame Work of Marketing in Microfinance

Microfinance has demonstrated its potential to assist the poor to make significant strides towards reducing their vulnerability, improving their livelihoods, paying for basic health care and financing their children's education (Littlefield et al, 2003). Many microfinance institutions (MFIs) have demonstrated an ability to provide financial services to poor people on a sustainable and profitable basis. Together, these facts have attracted a great deal of donor of money and a wide variety of organizations into the microfinance sector. As a result, a growing number of markets are becoming extremely competitive and clients have an ever-widening choice of financial service providers to choose from. With the vast majority of MFIs functionally confined to offering short-term credit products, the clients are effectively given the choice of staying with or leaving their current service provider at the end of every loan cycle. In competitive markets they are exercising this choice with unflinching regularity ...and many are "deserting" their service provider to try another or simply to take a "rest" from the rigours of MFIs terms and conditions.

Furthermore, the growth in competition between MFIs in many markets has meant that growing numbers of MFIs are responding by seeking to better understand their clients' demands and preferences and thus taking a market-led approach to their business (Anyango, Sebtsad and Cohen, 2002).

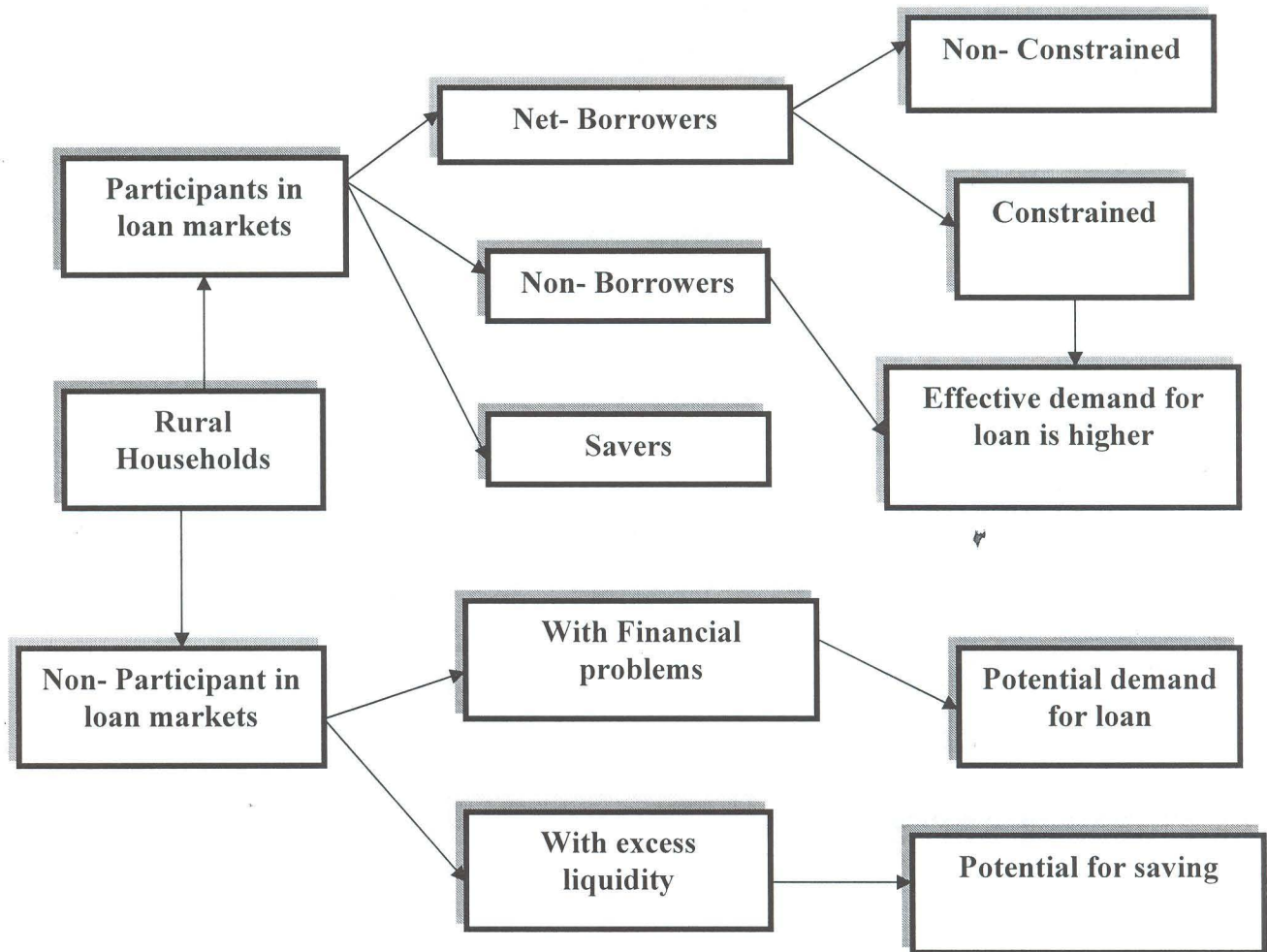
3.2 Why a Market Orientation

Market orientation holds that “success will come to those organizations that best determine the perceptions, needs, and wants of largest markets and satisfies them through the design, communication, pricing and delivery of appropriate and competitively viable offerings.” In contrast to a market orientation, most MFIs possess a “product orientation” which holds that “success will come to those organizations that bring to market goods and services they are convinced will be good for the public.” The transition from product orientation to market orientation is a process that has occurred in virtually all mature industries. The microfinance industry is unique only in that it’s relatively young and immature and it has yet to pass through this phase. But to pass through this phase it must, change and prosper. The question for MFIs is how to take an abstract concept like market orientation and give it real managerial/operational relevance.

Many of the studies testing the relationship between market orientation and institutional performance, half of the research found positive relationships between market orientation and at least one measure of institutional performance as measured by profitability, sales, market share, or innovation success. The same studies also found positive relationship market orientation and other organizational variables, such as customer retention, customer’s service, esprit de corps, trust in senior management, job satisfaction, and the intent to remain at an institution. The weight of these empirical findings offers conclusive evidence that higher levels of market orientation lead generally to higher levels of institutional performance.

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Framework of Analysis



Based on their participation in the loan market, rural households can broadly be divided into two groups; i.e. participants and non-participants.

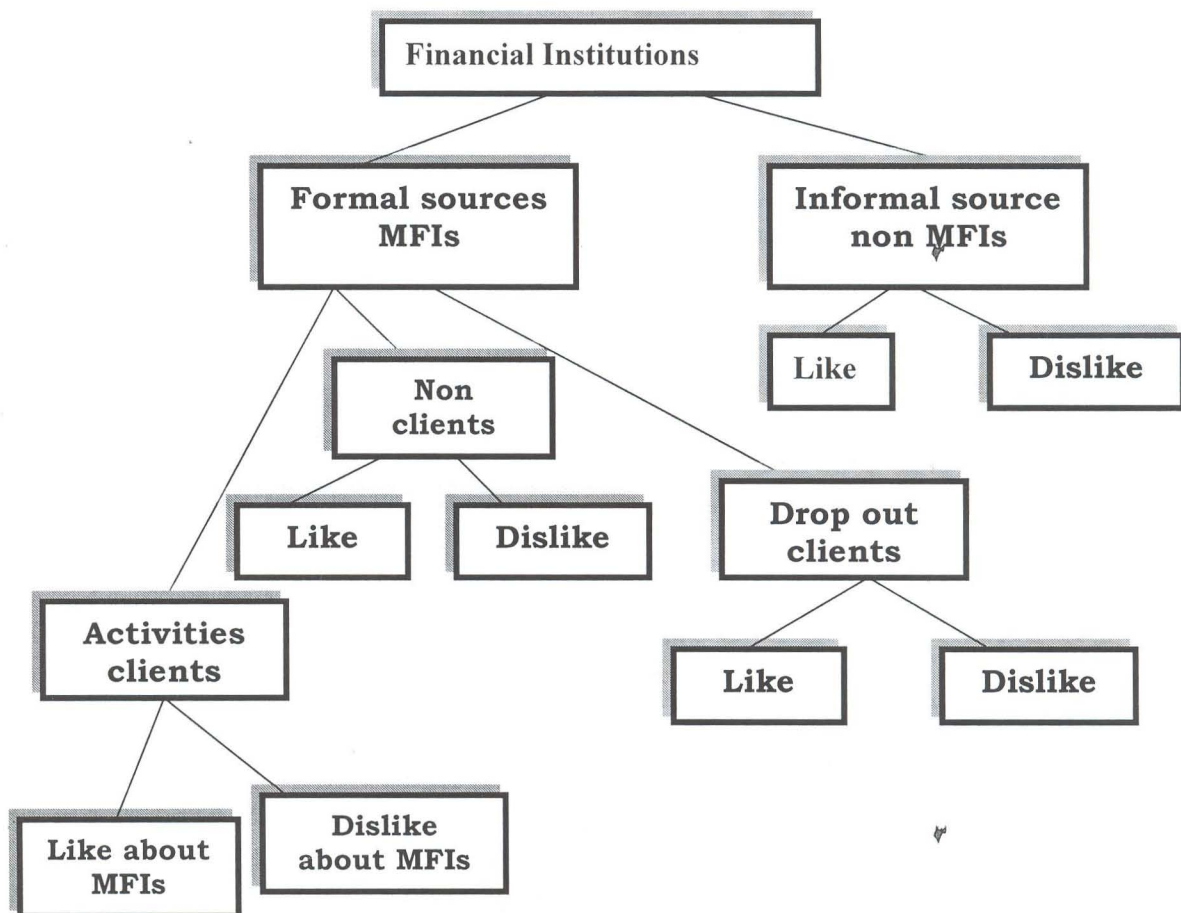
Non- participants can further be divided into two. These are households with liquidity problems and households with excess liquidity.

Participants households can be divided into four distinct groups. These are non- constrained borrowers, constrained borrowers, non- borrowers and net savers. Constrained borrowers are those who are not provided

the loan as per their demand. Un- constrained borrowers were those who borrowed what they demanded. Non- borrowers are those households who applied for loan but didn't get it. Savers are in this case those groups of households with net positives saving at MFI's.

From Figure 1, two major conclusions can be deduced. First, all households don't require credit, but all of them have clear financial service demand. Second, the demand for financial service (instead of credit) varies from one group to the other. This become the real challenge for the markets of microfinance institutions to satisfy each market segment.

Figure 2, An Analytical Framework for Customer satisfaction



Based on financial services rendered to public two types of financial institutions are available in the market. Formal financial and informal financial institutions. Emergence of MFI is almost a new phenomena in Ethiopia and recently started formal institutions are playing vital role for poor local communities. Informal institutions are like iddirs, equibs, money lenders and others providing the loan for those who have no access for credits with MFIs.

To address the current MFI market the research was focus on primary data from active clients, dropout clients and non user of loans. On the other hand, MFI and non MFI loans were considered to be treated separately to understand the customer preference on products, loan size, customer services, collateral and savings.

The household use non formal source to acquire credit from time to time. In rural part of Ethiopia households have a variety of traditional and non traditional sources, other than MFI loans .There may be MFI, in the area of households but they may continue to use informal sources for credit needs.

The loan size requested by the clients and approved by the institutions was to be analyzed, along with the duration of loan period. The diversion of loan for purposes other than intended needs another focus.

The adequacy of loan is another parameter to assess the performance of MFI market. The loans that are not adequate to start the intended activity may end up being diverted into uses that involve lower outlays.

MFIs are primarily designed to meet the financial demand of poor households by providing loans to borrowers using group rather than

asset collateral. So clients have to form a group where members will be jointly liable for member's defaulted loan.

It is to be checked whether those poor households who save money voluntarily meet various forms of expenditures? On the other hand, poorhouse holds especially in rural are to be assessed with respect to their savings.

MFIs have to improve their product/services so as to better meet the needs of clients. If not, clients look to other informal source of finance even with high interest rate. On the other hand financial self sufficiency of MFIs will never be possible in short period of time unless the clients are not satisfied by services.

There are several advantages of the services that MFIs rendered to clients on the other hand, there are also some features that are not liked by the clients. However, some of those unliked factors are an important requirements for MFI.

Based on the above conceptual questions the study was made and the analysis part has been made and presented in chapter four.

CHAPTER FOUR

4.1 Presentation of Data Analysis

One of the major constraints facing poor households is the lack of financial capital. Most of the formal financial institutions are located in urban areas. In some cases, formal financial institutions also exist in rural areas. Moreover, the formal institutions are generally less suited to the credit needs of small producers (rural or urban). In addition, the formal institutions require dependable collateral. As a result, small or poor households are usually excluded from the formal financial market. Therefore, MFI is an alternative institution to the poor households.

The establishment of MFIs is therefore, considered as response to the challenge of meeting the credit needs of poor households. As pointed out earlier, several MFIs have been established over the years both in rural and urban Ethiopia. The main objective of this study is, therefore to examine the performance of the MFIs market in rural and urban areas.

1. Non-MFI loans

The formal financial institution's distribution is too much limited, the households use non-formal sources to acquire credit from time to time. Both in urban and rural part of Ethiopia households have a variety of traditional and non-traditional sources, other than the MFI, of loans. Even though, there may be MFI in the area, households may continue to use informal financial sources for this credit need.

Table 1. Percent of active clients who took loan from non-MFI sources

	Metenamem	Addis	Oromia	Omo	Total
Percent/who took loan	16.5	20	18	3.5	17
Percent/who did not took loan	83.5	80	82	96.5	83
Total	100	100	100	100	100

A high proportion of the house holds (a little less than 20 percent) reported taking loans from such informal sources. This is likely to represent under-reporting that some clients may have failed to report such loans since MFIs do not allow their clients to take other loans. The major sources of the credit were from friends, money lenders, traders, shop keepers, Iqqubs and Iddirs. The main non-MFI source of credit for clients of Addis administration are Iddirs and traders whereas for Oromia Iddri's and equbs.

The duration of the loans received from the different sources also vary loans are provided in cash or kind. Mostly loans from Iddir and Iqqub are on cash but from the other sources like providing company it would be kind.

The money received from informal sources was high in amount related to Addis clients Where as low case of Omo clients (100 birr and 290 respectively). The sources of money from friends were high and which was low from Iddris followed 1100 is and 290 birr respectively.

Use of loan by source

Informal loans obtained from the sources indicated in the above table are used for a variety of purposes. Some of the loan is used to meet the consumption need of house holds while some is used for production purposes. Some clients used their loan to start new or expand existing

business. Some loans are also used to meet social obligations. The following table shows how the loans obtained by the active clients from the different sources were being used.

Table 2. Use of loan by source in percent

Source	Use of loan				
	House hold consumption	Meet social obligation	Start new business	Expand business	Working capital
Friends	72	17.2	3.4	6.9	17.
Money level	66	-	6.7	6.5	33.
Company	-	-	-	-	100
Iqqiubs	6.3	20.	40	60.	9.4
Iddirs	60.	-	25.	-	40
MOA	-	-	3.1	92.	100

It could be observed from the table above, the loans obtained from input providing source (MOA) are used for production purposes. Similarly, the loan obtained from MOA is mainly in the form of input loan (kind based). Most of the non-MFI loan used for households' consumption or meeting social obligations comes from sources such as friends and relatives.

Although the fungibles of funds is a major concern in the provision of credit to households, survival of the household is also an important consideration that needs to be looked into one has to survive in order to produce anything.

One of the main problems against credit access from the formal financial institutions to the poor is their inability to provide acceptable collateral or guarantee. In the respect of collateral requirement informal financial institutions are relatively more flexible than formal institutions. Even

the data taken from the four MFIs clients who took loan from informal source reported as informal sources were not requested to provide any collateral. Some of the credit providers however, required at least personal guarantor.

2. MFI loans

The size of the loan requested by the clients of the four MFIs and approved by the institutions generally shows an increasing trend. But, the duration of the loan does not generally show significant variation between different loans obtained at different times. The average duration of the loan is about 1 year maturing period loans. Some of the clients are dedicated to pay the whole amount according into the agreement they made. The diversions of loan for purposes other than it were intended for appear some what marginal. Due to the series supervision by loan officers, clients do not have much room for diversion.

➤ Purpose of MFI loans

The different loans obtained from the MFIs are basically used for different purposes including a variety of agricultural activities such as purchase of animals, bull fattening, to start new business or expand existing ones. However, by far the dominant activity financed by the MFI loans is the purchase of live stock and followed by purchase of inputs in the rural areas. Whereas, in urban area they are using for expanding the existing business and used for (Health care, education fee, consumption for house hold problems).

There is no major difference in terms of the purpose for which clients have used loans among the Metemamen, Oromia and Omo. However in case of Addis they are primarily used for non-agricultural activities (expansion of business, to renew old house and equipments). Some have also been used to meet the working capital needs of households.

➤ Adequacy of the Loan

There would be several parameters that can be used to assess the performance of MFI market. One of such parameter is the adequacy of the amount of the loan that is being provided by the MFIs. The loans that are not adequate to start the intended activity may end up being diverted into uses that involve lower out lays. The appropriateness of the duration of the loan is another parameter. Because the maturity periods not match with the gestation period of the activity financed by the loan may lead to delinquency.

From the data collected for study the appropriateness/adequacy of the amount, are not satisfactory for the business they planed.

Table 3 The amount of MFI loans requested/granted

Average amount	1st loan	2nd loan	3rd loan	4th loan	5th loan	6th loan
Requested	1400	1600	2000	25000	3000	3800
Granted	1000	1100	1300	1600	1950	2100

Loans granted are generally less than what was requested.

In general, above 50 percent of those who complaints were told that policy does not allow providing larger amount than had been approved. In case of Addis the adequacy of loan amount is far better than the others.

➤ **Collateral and loan determination**

As it is indicated, MFIs are different from other financial institutions. Because, their services are directed to low income, they are particularly established to meet the credit demand of poor households who are often not served from formal institutions due to lack of adequate and appropriate collateral. Therefore, most MFIs depend on group guarantee.

More than 80 percent of the sampled active clients who received the loans on the group collateral. In case of Addis, 18 percent of active clients taken the loan through personal property.

Regarding the procedures in determining the loan amount to be advanced to an applicant, there are differences. In case of Ormia and Omo it should be approved by the group members. Where as, in case of Addis it have been approved and revised by clients, and MFI. Metemamen is little bit different, because, it depends on the product offered to the clients. If the product offered was Hibret (group based) it was decided by group members and if the product was siket or qirs it were decided by the MFI officials (supervisors).

➤ **Monitoring and Supervision of MFI Loans**

Regular monitoring and close supervision of loan utilization is expected to help in reducing diversion of loans towards non-intended activities. MFI staffs are supposed to monitor client's loan utilization very closely. To know the progress of checking the sample clients are asked, how MFI monitoring is mostly conducted on monthly basis in case of Oromia, Omo and Metemamen.

The interesting parts of monitoring attitude developed by the clients were positively perceived that it was free from imposing the client's interest.

More than 95 percent of clients think that regular monitoring of loan utilization is useful process.

➤ **Monitoring of Loans of group Members**

Group members have an incentive to ensure that a loan taken by a member is, at least, not used in a manner that makes it repayment less. Group monitoring of loan utilization will not be effective in the absence of a favorable environment. Day to day follow up might be difficult if group members do not each other or live far a part from one another. Since group members are jointly responsible for the repayment of the loan, a group might not be willing to take the risk if it finds it difficult to closely following.

In this regard, more than 85 percent of the sampled respondents find it easy to monitor members' loan utilization. The rest of 15 percent indicated that it is relatively difficult.

➤ **Issues Related to group Formation for Loan**

One of the basic characteristics of MFI loans is group guarantee. MIFs are primarily designed to meet the financial demand of poor house holds by providing loans to borrowers using group rather than asset collateral. So, clients have to form a group where members will be jointly liable for a member's defaulted loan. However, such procedure despite its advantage may have some limitations. So, from the total of clients' opinion about the necessity of group 56 percent do not think that group requirement is necessary.

Table 4 Necessarily of forming groups (in percent)

Response	MFI				
	Metematmen	Addis	Oromia	Omo	Total
No	46	82	29	40.	56.
Total	100	100	100	100	100

However, there is variation in the response from MFIs. As shown in the table 60 percent of Omo MFI clients are agree the necessity of group and 71 percent in Oromia. On the other hand, 82 percent of clients are not agreeing from Addis MFI.

For those who did not see the need for group requirement the main reason was the obligation to repay a group member's loan in case he/she defaults.

➤ **Group Meetings**

In a group lending system, frequent compulsory group meetings are intended to simultaneously serve several purposes. Group members have to meet regularly to discuss matters related to their group and to evaluate their group's performance and progress made. So, the respondents expected to answer a services of question related to frequency and length of group meetings.

From the total of respondents 80 percent clients are not satisfied with the frequency of meeting and the time length. Majority of it belongs to Omo and Oromia. But the rest of 20 percent also feel that it will enable them to monitor and frequently to discuss or evaluate their work progress.

➤ **Over all MFI Operations**

As discussed earlier, the sampled clients, as users of group collateral based loans, have identified a variety of problems of the group guarantee system. On the other hand, however, MFIs need some assurance that their loan to poor people will be repaid. So, it is natural on the part of the MFIs to require some kind of security from borrowers to minimize the level of port folio at risk.

The role of MFI is very much appreciated among the clients. Several advantages of the services that MFIs render have been identified. The clients are strongly agree that services provided by the MFIs are

- it enables them to have an oxen
- it provides loan with low interest rate
- it saved them from exploitation of private money lenders
- it improves their living conditions
- it creates job opportunity and etc

On the hand, MFI provide several useful services to the clients, but there are also some features that are not liked by the clients.

The first important limitations are

- Duration of loan term is short
- No individual loan facility
- Group loan procedure
- high loan interest rate
- Low interest payment for savings
- Amount of loan small
- Inadequate group supervision
- Others like poor customer handling etc.

➤ **Main Reason's for not taking loans**

For different MFIs the separate questionnaire was distributed and the information captured from non participants including the following facts.

Table 5 main reason's for not taking loans (percent)

Reason for not taking MFI loan	Male	Female	Total
No need for credit	46	55	46
Feel of being indebted	25	34	26
Taking joint liability	24	11	22
Unable to form group	14	11	14
Loan size would be to low	15	0	12
Might interest rate	10	0	10
Disagreement with family	10	0	9.8
Not in the target group	15	0	8.7
Easier to get from other source	8	11	6.5

Most of the non-users of MFI credit did so argue the fact that they have no need for credit indicates by 46 percent of the respondents. percent of. Fear of being indebtedness and group associated problems are followed respectively.

What non-participants dislike about MFIs: The non-participants dislike five things about MFIs. It could be observed from the following table that their unwillingness to give individual loans, the short term nature of their loans, high interest rate involved and the small size of loans are among the factors that make MFIs less popular.

Table 6 Five things that non-participants dislike about MFIs in percent

Dislike about MFIs	1st	2nd	3rd	4th
Don't lend individually	50	13	42	-
Short maturity of loans	11.0	34.	29	-
High interest rate	6.0	26.1	-	1
Don't lend if no guarantee	3.0	-	-	-
Inadequate supervision	3.	-	-	-
Do not take into account temporary problems of borrowers	3.0	-	-	-
Frequent meetings	1.5	13.	14.3	-
Small loan size	1.5	-	14.3	-
Compulsory saving	-	8.7	100	

From the above table, about 85% reported that they made the decision to quit rather than being expelled: expulsion by group was indicated by only 3 percent. The most common reasons for quitting are: no need for credit any more 38.5 percent. No willing to guarantee others loans 27 percent. 18 percent of respondents hate forming groups. No need to attend group meeting requirement 11.5 percent.

Five things that dropouts like about MFI

- creates job/improving living condition
- low interest rate
- compulsory saving advantage awarness about saving
- fast approval of loan request
- close supervision on loan utilization

Table 7 Five things that dropouts dislike about MFIs

Dislike about MFIs	1 st	2 nd	3 rd	4 th
Don't lend individually	49	13	18.2	-
Short maturity of loans	17.8	26.7	18.2	33.3
High interest rate	8.2	13.3	18.2	33.3
Inadequate supervision	1.4	3.3	-	-
Frequent meeting	5.5	6.7	9.1	
Small loan	1.4	3.3	18.2	
Compulsory saving	4.1	13.3		
Limited work force of MFI (spends lots of time)				33.3

➤ **Suggested Improvements**

The clients have also made several recommendations to improve the performance of the MFIs. Most of the recommendations are related to the limitations that the clients have raised.

Table 8 Suggested improvements of the MFI programs

Improvements	Name of MFI				
	Metemamen	Addis	Oromia	Omo	Total
Individual lending	23	19	23	83	43.5
maturity period increase	35	58	20	5.8	21
Increased loan amount	7	1.2	2	3.8	7.6
Reduced interest rate	7	8	5	3.8	6
Flexible saving with drawl	6	0.6	0.0	0.0	2.1
Others	23	14	29	8.8	17

Others include improved customer handling, consideration of individual guarantee, providing training etc.

The most important suggested improvement by most of the clients about 44 percent is the introduction of individual lending. There should be strong mechanisms would be desired to individual lending instead of group lending. Raising the loan amount, reducing the interest rate and improving the saving deposit with drawl procedure are some of the other suggested recommendations.

3. Issues Related to Savings

The most important services provided by MFIs in Ethiopia is savings mobilization. The modality of mobilization can be voluntary or compulsory. It is debatable that poor households especially in rural areas do not have any cash that could be saved since their income is usually very low. However, the evidence shows those poor households indeed save money voluntarily to meet various forms of expenditures. Currently, MFIs could encourage voluntary savings in addition to the compulsory savings. From the total respondents, not included of Metamamen, (because it did not start voluntary saving) 68 percent have not any personal savings and the other 30 percent they have personal savings. Among of the active clients from Addis have more personal savings and Ormia followed respectively. The average amount of savings ranges from 2000 to more than 3500Birr.

Mainly the cash saved amount is used for a variety of purposes. Some of the saved amount is used for investment in health and education. Some also use their saved money for financing agricultural production and construction of house in rural area whereas in urban area they used for different purposes. The preceding issue focused more on compulsory savings. All MFIs under operation started or introduced the compulsory saving as free condition for loan provision. A borrower has to save some minimum amount before a loan application can be approved. There are some who may not be convinced or satisfied about the importance of the

compulsory savings. It is possible to summarize from the respondents feeling.

Table 9 Importance of compulsory savings requirement /percent

Compulsory savings	Name of the MFI				
	Metemamen	Addis	Oromia	Omo	Total
Important	84	62	97	96	82
Not important	16	38	3	4	18
Total	100	100	100	100	100

It can be observed from the table 3.1 more than 80 percent of the respondents believe that compulsory saving is important. At high rate of Addis respondents have not convinced for the importance of compulsory saving.

Those who appreciated the importance of the compulsory savings justified their conclusion by pointing to a number of advantages. The most important justification is related to the opportunity to use the savings for repayment of loan especially clients from Oromia and Omo strongly agree with compulsory savings. Because to minimize the burden of default amount which is burden for all group members. For those who did not appreciate the importance of the compulsory savings requirement, the main reason was related to their inability to withdraw their savings when they want , about 93 percent of the sampled active clients felt that it does not make any sense to save unless they are able to use their savings whenever the need arises.

An interest rate is one of the instruments that could be used to encourage and mobilize savings. The MFI clients earn interest income on their compulsory savings which according to the respondents, average

3.5 percent pay on their saving deposits. This is not very far different from those formal institutions pay on. More than 60 percent feel that the interest payment on compulsory saving is not appropriate and some of micro finance clients have no information regarding the bank interest rates on savings deposits.

4.2 Degree of Customers Satisfaction with the MFI Products/ Services

The success and growth of MFIs is very much related to the level of satisfaction of their clients. In order to become sustainable alternative financial institutions they have to evaluate their performance continuously. The selected respondents from different institution were asked to indicate their level of satisfaction or dissatisfaction with the service provided by the MFIs. This following section presents the level of satisfaction by products and services on active clients:

4.3 Borrowing Procedure

One of the factors which might potentially deter households from using the services supplied by MFI is the transaction cost associated with loan. In this regard, more than 85 percent were found comfortable with the borrowing procedures. Some five percent were not happy with the relative issues. There is a little bit variation in case of Addis credit and saving institution, whereas, for others does not seem to be high variations in terms of smooth borrowing procedures.

4.4 Type of Loan provided by MFIs

In regard to the type of loan provided by the MFIs, a little more than 65 percent are fully satisfied while another 30 percent are just satisfied few active clients (around three percent) are some what dissatisfied with the type of loan. Therefore, there is no major problem regard to type of loan offered by the institutions.

4.5 Level of Interest Charged by MFIs

This is one of crucial areas where the clients, are not satisfied. More than one third of the active clients taken from the four MFIs are not happy with the level of interest rates charged for MFI loans. Not more than 59% of respondents expressed satisfaction with the level of interest rate charged by MFIs.

Table 10 Degree of Satisfaction with the Interest rate in (percent)

Satisfaction level	Name of MFI				
	Metemamen	Addis	Oromiya	Omo	Total
Fully satisfied	28.5	8.3	54.	17	28.6
Just satisfied	38.8	21.9	22.3	63	29.8
Indifferent	7.5	11.5	2.8	1.	7.6
Just dissatisfied	19.9	44.8	12.9	6.4	25.3
Fully dissatisfied	5.00	12.5	8.1	0.0	8.1
Don't know	0.5	1.00	0.0	3.6	08

The above table shows that there are variations across MFIs in terms of level of satisfaction with related to level of interest rate. It shows that clients of the Addis are the most dissatisfied ones while those of Metemamen and Ormia MFIs are relatively the most satisfied clients. The MFIs look out whether lending interest rates are high or low depending

on the returns and the opportunities the loan offers. So, the result suggests that it might be important to evaluate local conditions and reconsider the interest charge accordingly.

4.6 Size of Loan

In related to the size of the loan provided by the MFIs and the amount required for, some 75% of the respondents are satisfied but the remaining are either dissatisfied or indifferent. Most of the clients who are from Omo and Metemamen are dissatisfied with the loan size while the most satisfied ones are from Addis MFIs are launching individual loans up to birr 250,000.

4.7 Timelines of Loan Processing

The sampled active clients of the four MFIs seem to be well satisfied with timeliness of both the processing and disbursing of loans. About 90 percent are fully satisfied and the rest 10 percent are not satisfied. Clients from Metemaen and Oromia are fully satisfied whereas Omo microfinance clients have certain reservations.

4.8 Repayment Schedule

The appropriate repayment schedule is another crucial variable that can affect the performance of MFIs. If the collection schedules are not match with the income generating period of clients it might create problems. In all, more than 60 percent of the selected active clients are satisfied with the repayment schedule of the MFIs while nearest to 35 percent are dissatisfied. Therefore, repayment schedule is the other important area next to interest rate which needs attention improvement.

4.9 Maturities Period of Loan

In all microfinance this is an area more dissatisfaction faced among the clients. More than 45 percent of the active clients considered satisfied with maturity period while, 41 percent of the respondents were dissatisfied.

Table 11 Level of satisfaction with loan maturity

Satisfaction level	Name of MFI				
	Metemamen	Addis	Oromia	Omo	Total
Fully satisfied	21	23.4	36.8	3.4	25.4
Just satisfied	30	3.5	28.7	31	29.8
Indifferent	3.4	7.4	4.0	3.2	4.9
Just dissatisfied	32.5	34	12.8	60	28.8
Fully dissatisfied	12.4	4.2	17.7	3.1	10.8
Do not know	0.4	0.5	0.0	0.0	0.3

4.10 Loan Collection

Most of the selected active clients have satisfied with the collection of loan methods developed by the MFIs. Some five percent of active clients have, however dissatisfied with the method of loan collection. Oromia and Omo micro finance have to see any better way of collection method.

4.11 Availability of Product Information

An important factor to make a sound decision is information. Clients need adequate and reliable information on the available services or products. Only 35 percent are fully satisfied with the availability of product information and 38 percent are just satisfied. About 23 percent are, however, not satisfied with the information availability. Therefore, MFIs should be done with regard to providing information to clients. Metemamen and Addis were a little bit in better position.

4.12 Non group based Loans

It was clearly mentioned earlier, MFIs usually adopt a group based loan procedure. A group based loan procedure is useful, while has its own limitations. Collective group liability is always an issue the clients not accepted. Only 40 percent of active clients are satisfied by group lending mechanism while 52 percent are dissatisfied and the rest are indifferent. The Omo and Oromia MFIs clients were the most dissatisfied one. Where as, Addis MFIs clients are at high level satisfied compared with others. This is another area of MFIs have to improve urgently to sustain its operation.

4.13 Customer Handling

With regard to customer handling, there is no major problem. Closer to 93 percent of the active clients are satisfied with customer handling. Metemamen handling better and Oromia follower

4.14 Accessibility of Compulsory Savings and Interest Paid to it

The interest rate on compulsory saving is another area where there is more dissatisfaction happened among the active clients. About 40 percent of the respondents believe that the interest paid on compulsory savings is acceptable. Only 40 percent are dissatisfied. The rest of 20 percent are indifferent.

Table 12 compulsory saving (on percent)

Degree of satisfaction	Name of MFI				
	Metemamen	Addis	Oromia	Omo	Total
Fully satisfied	22.	2.5	29.1	0.0	16.6
Just satisfied	26.8	14	32.	10	22.8
Indifferent	5.4	13.2	10.	0.0	9.4
Just satisfied	10.	41.	18	6.7	22.5
Fully dissatisfied	5.3	24.	10.0	0.0	11.6
Don't know	29.	7.2	0.0	82.9	17.0

Many clients dissatisfied with the level of interest rate on compulsory saving. On the other hand, the access of their compulsory saving during the time of emergency was the other dissatisfying factor. From the respondent's of active clients it is possible to make action on it.

Table 13 Compulsory saving access during emergency

Degree of satisfaction	Name of MFI				
	Meetmamen	Addis	Oromia	Omo	Total
Fully satisfied	7.00	3.00	24	0.0	9.9
Just satisfied	25.	7.00	20	6.7	13.
Indifferent	3.0	8.	9.9	0.0	4.5
Just dissatisfied	40.8	39.2	26.9	80.00	41.4
Fully dissatisfied	23.4	42.	19.3	13.5	29.
Don't know	1.9	2.00	0.0	0.0	2.00

Metemamen and Oromia were in better position while, Addis and Omo were being worst position of access to compulsory saving during in time of emergency.

4.15 Accessibility of Voluntary Savings

The overall situation with regard to voluntary savings is different from that of compulsory savings. Metemamen did not start voluntary saving up to know. For others, the level of dissatisfaction is lower than that of the compulsory savings.

4.16 Training to New Borrowers

One of the important requirements for the success of micro finance institutions is to create awareness for potential clients. If the borrowers are not aware of about the objective of the program and how to use the loan, the program have been in problem of default. The training packages should corporate technical and integrated training with financial support and loan utilization. Because, the technical training is important for productivity of borrowers.

More than 90 percent of the active clients are satisfied with the initial training provided to first time borrowers.

5. New Products/Services to be considered

It is clear that existing MFI products/services are useful but is far from meeting the needs and preference of their target population. They have to improve their products/services so as to better meet the needs and preferences of potential clients. They could be done by refining existing products/services and/or designing new products in features.

Among the refinements that should be considered to undertake are:

- Changing the current rigid requirement of uniform regular repayment throughout the year and one time full repayment at the end of loan term/balloon payment. This is uniformly true for all microfinance institutions under research of enquiry made. Therefore, it ignores seasonal variation in income in one side and on the other side, it enforces to fully settle their debt obligations rather than encourage them to pay whatever they can over the installment period.
- Fixing duration of loans based on sound understanding of the gestation period that the activity/business to be financed by the loan involves the existing arrangement in some of the MFIs (Omo, Metemamen and Oromia) does not appear to be as such requirement dictates.
- Rescheduling/arranging loans in case of veritable emergency situation like drought and other accidents etc.
- Making an adjustment of compulsory savings responded with emergency by providing savers with at least partial of their balance for quick access in case of genuine emergency. Addis and Metemamen were in better position.
- Starting voluntary saving in case of Metemame and Omo whereas, making an easily accessible to with draw from their balance in case of Addis and Oromia. By having this and other related turning of existing products will make them more customer oriented. The new products/services for microfinance industry can do more to tailor more services and their terms. In addition to they can make favorable conditions to match loan purpose and provide medium and long term credit products; with associated term funding, suited with different local and urban business activities.

For the discussion so far, some of the new products that MFIs may consider include

- Individual loan (except Addis because they have already started)
- Provide savings collection service at convenient locations (e.g. mobile saving)
- Providing remittance service

CHAPTER FIVE

5.1 Conclusion

Loan and Saving Issues:

One of the major constraints facing poor households in general and rural households in particular is the lack of financial capital, as they have no access to the organized financial market. But, how has the establishment and expansion of MFIs changed the situation on the ground?

Non-MFI Loans: While a high proportion reported taking loans from non-MFI sources over the previous 12 months, the figure is likely to be an under-reporting since some clients may refrain from reporting such loans given that MFIs do not allow them to take other loans. The major sources used include friends/relatives, moneylenders, traders and shop keepers, input distributing companies such as Ministry of Agriculture (MOA), iqqubs and iddirs. The durations of the loans received from the different sources also vary. Loans are provided either in cash or in kind and in some cases in a mixed form. The input credits are mainly provided in kind while loans from iddir or iqqub shows that most of the credit providers' required personal guarantor. More than 85 per cent of those clients who took loan from companies and more than 80 percent of those who received loan from moneylenders had to present personal guarantor. Some 38 percent of those who borrowed money from friends and relatives have also been asked to provide personal guarantors.

Issues Related to MFI Loans: Loans acquired from MFIs are basically used for different purposes including agricultural activities such as purchase of animals and farm inputs; start new business and expanding it; etc. By far the purchase of livestock is the dominant activity undertaken by the MFI loans in rural area (absorbing more than 60 percent) followed purchase of farm inputs. There is no major difference in terms of the main purpose for which clients have used loans among the Oromiya, Metemamen and Omo MFIs-purchase of livestock and farm inputs are the dominant uses in rural . However, most of the loans by the Addis MFI have been primarily used for expanding none agricultural business and some to meet the working capital needs of households and to expand the existing business.

Adequacy of loan amount and appropriateness of its duration, the repayment schedule, and level of interest rate are important parameters.

Regarding adequacy, more than two third indicated that the amount of most of their MFI loans have been adequate. Nearly three quarters are satisfied with the amount of the most recent MFI loan. A good percentage of those received inadequate did complain at the time and the main response was related to the loan policy of the MFIs. Some were also told that they would be given larger loans in the future once their potential to repay the loan is assessed and confirmed through smaller loan amount. Only one appreciable difference exists among the clients sampled from the four MFIs(Addis clients).

The duration of the loan provided by the Oromiya, Metemamen and Addis MFIs has been satisfactory but not for Omo. More than 60 percent of their clients indicated the duration of most of the loans as appropriate as opposed to only 30 percent for Omo

They argued that the duration is too short for production activities that involve long production cycle such as livestock production. It appears that the MFIs have to improve their products (providing differentiated and long term loans by introducing new or refining the existing products) so that they suit the needs and circumstances of clients. After all, one way to tap new market opportunities is by providing new products and services to existing customers (i.e. increasing the depth of product line). Doing this also allows the MFIs to retain clients (hence increase the number of repeat borrowers thereby reducing screening costs) and achieve strong client relationship.

By far the most dominant repayment modality is repayment at the end of the loan term (although weekly and bimonthly payments are also involved) More than 80 percent make their repayment at the end of the loan term. While the repayment cycle for most of the loans from Oromiya, Metemamen and Addis MFIs is consistently at the end of the loans term, All sample clients from the Omo MFI have bimonthly repayment schedules for all loans.

In general, according to the sample MFIs active clients, the repayment cycles for the different loans taken so far have been appropriate. However, this is not the case for most loans by the Omo MFI where more than 80 percent feel that the repayment cycle is not appropriate.

The proportion that indicated a strong link between repayment cycles and income is not more than 20 percent.

Most of the clients pointed out that the MFIs are not willing to negotiate or reschedule their loans even when a borrower faces such abnormal circumstances. While MFIs need to be careful not to create the

expectation among borrowers that loans will be rescheduled whenever a borrower makes such claims, it may be useful to accommodate personal cases. While most MFI loans were given on the basis of group collateral, some 10 percent had also to present personal property.

Regarding loan diversion, about 30 percent of client of Oromiya, Metemamen and Addis MFIs admitted using their MFI loans for other purpose. But, still most of them used it for production purposes although it was not given for that specific activity suggesting the need for flexibility taking the needs and preferences of clients. More than 60 percent stated that they would have preferred to borrow for purposes other than what they were given. Moreover, more than two third reported profitable businesses opportunities they missed due to lack of financial resources.

Interestingly, more than 95 percent of the sample active clients think that regular monitoring is a useful exercise while most are satisfied with the monitoring procedure (only less than 10 percent expressed dissatisfaction). More than 97 percent believe that constant reminding about repayment of loans is a useful exercise implying that the regular follow up by loan officers could even be considered as demand driven.

Issues related to groups: while more than 65 percent reported that the groups' approval of the purpose for which a member takes a loan is always required, a little more than 35 percent indicated that it is not always necessary (despite the fact that group members are jointly and severally liable). More than 50 percent reported that they usually monitor how and for what purpose a member's MFI loan is being used. The actions groups members take in case of diversion include providing advice, final penalty, dismissing the member from the group, selling the assets of the borrower to repay the loan, etc.

About 51 percent do not think that group requirement is necessary. In fact, the idea of holding the group collectively responsible is not supported by more than three-quarter of the clients who are not in favor of the group requirement. Some also raised the issue of conflict between group members that hinders the smooth operation of the group. Other reasons include lack of good working environment for the group, too many (hence costly) group meetings, difficulty in meeting the expectation of every member, etc. Some members also felt that the procedure does not take individuals' interest into account. More than two third of the respondents indicated that they would have preferred to take individual loans. For nearly 95 percent of those who expressed such preference the main reason is that they want to be responsible only for their own loans. They also argued that individual loans gave them the freedom to plan and use the loan according to their preferences. These suggest that a more flexible system may be needed. One possibility to consider is lending against crop and/or livestock inventory. More than half of the households expressed strong interest in this kind of loan product. In fact, except for the clients of the Metemamen MFI, most would have liked to take such loans.

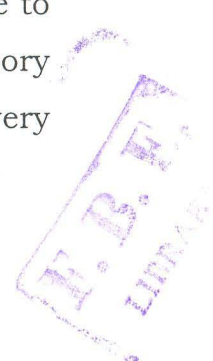
Given that most of the MFIs insist on using group-based lending system, being able to join a group is crucial. In this respect, the proportion of active clients that faced difficulty in joining a group is high (about 19 percent). In fact, this may be an underestimation since the respondents are clients who have somehow succeed in joining a group.

For most sample active clients, regular group meetings are important and appropriate. They recognize that frequent group meetings help to monitor loan utilization closely (thereby reducing probability of default), to discuss or evaluate their work progress and solve problems that may

arise, to monitor the loan utilization of a member to exchange ideas among themselves, and to remind members about loan repayment schedule. For those who do not support the idea of such regular meetings, the main reason is that it is time consuming. This view is consistent with the relatively high attendance reported: More than 72 percent said that they attend the group meetings always while some 14 percent attend most of the meetings. Some 10 percent attend the group meetings sometimes.

The researcher attempted to explain if MFI services have improved compared to the past as perceived by the sample clients. Nearly 60 percent reported improvement overtime, the three most important improvements being availability of larger loans, longer duration of loan, and reduced interest rate that order.

Issues Related to Saving: More than 80 percent believe that compulsory savings is important, except for Addis clients where quite a high proportion (close to forty percent) are not convinced about the importance of compulsory savings. Those who appreciated the importance of the compulsory savings justified their conclusions by identifying a number of advantages, the most important being the opportunity to use the savings for repayment of loan-more than 65 percent indicated that compulsory savings help them to repay their loan. However, clients also identify several limitations/features of the compulsory savings that render it unattractive. More than 80 percent indicated that they cannot access, at least part of, their compulsory savings before repaying their loans even if they are faced with emergencies and do not see a good reason to save unless they are able to use it in times of their difficulties. Others do not like the compulsory savings modality because it is not based on personal interest while very few stated low interest rate as prevention.



Only one quarter have voluntary savings with the MFIs (despite the fact that it is accessible) while, as indicated earlier, more than 80 percent have compulsory savings. This implies that much remains to be done to convince rural households to use the MFIs for voluntary savings. Somewhat surprisingly, the majority (about 34 percent) do not know how much interest rate their savings fetch. For more than 75 percent of the active clients inability to save has been the main reason for not having voluntary savings with the MFIs.

Respondents ratings of the MFI products/services (with their terms & conditions) indicate that: clients are highly dissatisfied with the level of interest on MFI loans: More than a third of the active are not happy about this).

There are variations across MFIs it looks that clients of the Addis are the most dissatisfied while those of Omo and Oromiya MFIs are relatively the most satisfied. While it will be useful to see whether lending interest rates differ significantly among the four MFIs, it should be noted that a given interest rate may be considered high or low depending on the returns that opportunities offer. So, the result suggests that it might be important to evaluate local conditions when fixing the level of interest. Although high lending interest rate may also be important to evaluate local conditions when fixing the level of interest. Although high lending interest rate may also reflect operational inefficiency, this explanation is not likely to apply to Addis. Another area of dissatisfaction is the maturity period-about 40 expressed dissatisfaction with the existing maturity period (most of them are clients of Metemamen and Omo MFIs). What clients like and dislike about MFIS: Sample clients were asked to indicate up to five things that they (i) like most and (ii) dislike most about MFLS. The MFI, identifying several advantages including enabling them to buy factors of production such as oxen and other assets, saving them

form being exploited by moneylenders, allowing them get loan without personal guarantee, creation of jobs, getting advice on how to use the money, etc.

However, there are also features that clients do not like. Little more than one fifth indicated the group loan procedure, 19 per cent cited the unavailability of individual loan facilities, while about 17 percent identified short maturity of loans.

Other problems mentioned include, low interest rate on savings, smallness of the loan size, frequent meetings, poor group supervision, high interest rate, poor customer handling, etc. The group loan procedure is the most undesirable activity reported among Addis MFI clients while the duration of the loan is being reported as the most important limitation by clients of the other three MFIs.

Most of the non-users of MFI credit (non- participants) refrained from borrowing despite the fact that they have need for credit: more than 52% indicated that they need and would have taken MFI loans if they were to be given individual loans. Fear of indebtedness and group-associated problems (i.e. risk of being liable for the loans of others that the group lending system involves, difficulty of forming a group and time cost of group meetings) are discouraging many otherwise qualified households from using MFI loans, there by limiting outreach as well as the degree of popular participation. According to the non-participant households, the two major problems with the group- based lending system are being forced to pay some one else's loan and time consuming meetings. About 85% of the dropouts reported that they made the decision to quit (rather than being expelled. Among, the most common reasons for dropping out are not willing to guarantee others' loans; difficulty in forming a group; and meeting requirement. Both high interest rate and unwillingness to

give individual loans are also among that non- participants dislike most about MFIs.

5.2 Recommendations

The clients have made several recommendations to improve the performance of the MFIs. Most of the recommendations relate the problems raised earlier, the most important (suggested by about 44 percent) being the issue of individual lending. A significant number of clients from the Oromiya, Metemamen and Omo MFIs would like the loan maturity period to be increased. Raising the loan amount, reducing the interest rate and improving the saving deposit withdrawal procedure are some of the other suggested measures. On the other hand, suggested improvements by the non- participant household include and raising the loan size. More than 55% of the dropouts indicated that they would be interested in MFI loans if they were to be extended against individual asset what they had rather than group collateral.

Regarding clients' most preferred new products to be introduced, expanded loan facility for the purchase of improve livestock breeds, loan facilities to buy irrigation pumps, for the construction of houses, to start new business etc. were the main ones while loans to cover medical expenses have also been suggested.

New products/services to consider: For the results it is clear that existing MFI products services are far from meeting the needs and preferences of their target population. MFIs need to improve their products/ services by refining existing ones and /or introducing new with features that address the unmet needs.

Among the refinements that could be consider are; changing the current uniform regular repayment throughout the year and one- time full repayment at end of loan term: rescheduling loans incase of real emergency situation; improving the accessibility of compulsory savings in case of emergency; ensure that voluntary savings involves small minimum deposit requirements and are withdraw-able with relative ease. Some of the new products to consider include; individual loan; saving collection services at convenient locations; emergence services.

Declaration

I Bogale Boshe declare that this project paper entitled "**Micro Finance Market in Ethiopia**" is my own effort and study. I have conducted it independently except for the guidance and suggestions of the research supervisor. This study has not been submitted for any degree or diploma in this or any other university. It is offered here in partial fulfillment of the requirements for the degree of Masters in Business Administration.

Bogale Boshe

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Annex 1

Questioner for those drop out clients

- 1. Region _____
Woreda _____
Kebele (peasant association) _____
Name of MFI _____
Name of client _____
Interviewer's name _____
Name of group in which the client was a member _____
Entry date _____
Exit date _____
Name of Loan Officer/Supervisor _____

- 2. Social Demographic Information
Name of house hold member (in no) _____
Relation to house held head _____
How age category _____
Marital status _____

3. How may times do you borrow from the MFI? _____ times

- 4. What was the largest and smallest amount you borrowed?
Smallest _____ birr largest _____ birr
First loan _____ birr last loan _____ birr
Number of cycle _____

5. Did you paid the last loan? Yes No

6. If you didn't pay last loan how much it was _____

7. Total amount of loan you took from the MFI _____ birr

8. How much amount of saving with the MFI _____

9. Type of business financed by last loan _____

Type of business	Yes	No
Petty trade		
Social service		
Production /Industry		
Forming		
Animal fattening		
Fishing		

10. The loan from MFI helped me to

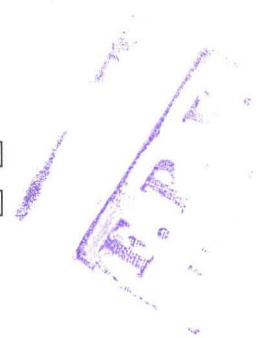
- | | | |
|-------------------------|------------------------------|-----------------------------|
| To keep my business | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| To start new business | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| To change business | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| To buy farm imputes | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| To buy equipment | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| To meet medical expense | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| To finance celebration | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| To improve savings | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| To purchase livestock | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| To help my parents | Yes <input type="checkbox"/> | No <input type="checkbox"/> |

11. Through investing my loan from the MFI, my income

1. Has in creased
2. No changed
3. Decreased

12. Last loan from MFI was

1. Very big to pay back
2. It was possible to re play and sufficient for business



3. Very small and insufficient for business

13. Why did you drop out from MFI loan?

1. Quit my self

2. Was excluded by the MFI

3. The loan group failed

4. Others

14. If you are enforced by group member, to expelled from group what are reasons

Attendance problems

Repayment problems

Inconvenient with others

Any other

15. Indicate at least three things that you dislike about MFIs?

16. What would suggest for improvements?

17. What other products would like the MFI introduce?

Annex 2

Questioner for non-user of MFI loans

1. Region _____

Woreda _____

Kebele (peasant association) _____

Name of MFI _____

Name of client _____

Interviewer's name _____

Name of supervisor _____

2. Number of house hold (no) _____

Relation to house hold (friendship) _____

Marital status _____

Main occupation _____

3. If you have never borrowed form MFI what if main reason(s)

Reasons

No need for credit Yes No

Unable to meet compulsory saving Yes No

Taking group responsibility Yes No

Group meeting requirement Yes No

Group collection Yes No

Loan size would be too low Yes No

Missing targeted group Yes No

High interest rate Yes No

Disagreement with family Yes No

Religious reason Yes No

Easier to get loan from other source Yes No

Others _____

4. Did you take loans from other source(s) other than MFI over the last period?

Yes

No

5. If yes,

From what source	Amount birr	Repayment period	Interest
Friend /relatives			
Money lender			
Commercial bank			
NGO			

6. Would you interest to borrow from MFI it is were lending individually rather than group?

Yes

No

7. What is the major problem with group lending?

8. What would you like about MFIs lending

9. What would you dislike about the MFIs lending

10. What are your suggestions for improvement?

11. What other products would you like the MFI to introduce to the market?

Questions to MFI Officials (General Managers)

Name of Micro Finance _____

Region _____

Woreda _____

Name of kebele _____

Name of Loan Officer (respondent) _____

Respondent's Name _____

Basic operation of the MFI _____

1.a How many types of Micro finance do you offer products currently?

- a) 1 b) 2 c) 3 d) more than three

1.b Do your current products satisfied your customers?

- Yes No

1.c If your answer for 1.b is no, what you plan further?

- 1. Inducing the new ones
- 2. Refining the existing ones
- 3. Continue as it is

1.d What is the base for introducing new products?

- 1. Marketability
- 2. Loan size
- 3. Occupation
- 4. Any other (Please specify) _____

1.e What are the main reasons for product differentiation?

- a) High competition
- b) Customer demand (requisition)
- c) To get more return (benefit)

d) Marketability

e) Any other (Please specify) _____

1.2 How are loan amounts to each borrower determined?

a) Based on estimated capital requirements of each person's business.

b) Based on estimated capital requirements of each person's business subject to confirmation by his/her group

c) Based on estimated capital requirements of each person's business subject to confirmation by MFI

d) Simply fixed by the MFI based on other consideration

e) Borrower's ability to make the required initial payment

f) Any other (Please specify) _____

1.3 Mark (x) the factors that affect interest rates charged:

	Yes	No
Size of loan	<input type="checkbox"/>	<input type="checkbox"/>
Duration of loan	<input type="checkbox"/>	<input type="checkbox"/>
Type of activity financed	<input type="checkbox"/>	<input type="checkbox"/>
Type of product	<input type="checkbox"/>	<input type="checkbox"/>
First time users v/s repeat borrowers	<input type="checkbox"/>	<input type="checkbox"/>
Others (any) specify _____		

1.4 How does the MFI collect repayment by the group? What is practiced in collecting repayment for groups:

1. Accept partial payment

2. Accept full payment

3. Any other (specify)

1.5 If the MFI accepts partial payment why is that so?

1.6 Does the MFI provide any loan with balloon payment?

1.7 How the guarantee is different form others

1.8 Please fill information on time and repayment cycles used for different loans?

<u>Type of loan</u>	<u>Maturity period (month)</u>	<u>Repayment cycle</u>
Petty trade loan	_____	_____
Input loans	_____	_____
Loan for animal (bull) fattening	_____	_____
Loans for farming	_____	_____

1.9 Please furnish the factors normally taken into account in fixing duration of loans:

<u>Type of loan</u>	<u>Main factors considered</u>		
Petty trade loans	_____	_____	_____
Input loans	_____	_____	_____
Loan for animal (bull) fattening	_____	_____	_____
Loans for farming /irrigation	_____	_____	_____

1.10 What are main factors to be considered in fixing the installment per repayment cycle for different loans:

<u>Type of loan</u>	<u>Main factors considered</u>		
Petty trade loans	_____	_____	_____
Input loans	_____	_____	_____
Loan for animal (bull) fattening	_____	_____	_____

Loans for farming /irrigation _____

1.11 Does the MFI normally give loans to client's facing emergency situation?

Yes No

1.12 If yes, please mark (x) the bases for granting as rejecting the emergency loans?

	Yes	No
Past track record of the borrower	<input type="checkbox"/>	<input type="checkbox"/>
Availability of collateral	<input type="checkbox"/>	<input type="checkbox"/>
Agreement of its group members	<input type="checkbox"/>	<input type="checkbox"/>
Past track record of the group	<input type="checkbox"/>	<input type="checkbox"/>
Other (specify _____)		

1.13 If no, emergency loans are provided, then why?

1.14 On an average, how frequently do you loan officers normally supposed to visit a borrower?

1.15 Are they paid performance based remuneration (salary, bonus etc)

1.16 Do you make immediate follow-up in case of failure to meet a periodic installment by a borrower?

1.17 Would you Please share MFI loan information for last three years?

	1996	1997	1998
Cumulative loan disbursement			
Number of clients			
Outstanding loan portfolio			

1.18 To what extent are frontline Managers (Loan Offices/Supervisors) of MFIs allow adopting financial products to clients requirement?

1. Very high involved
2. High involved
3. Low involved
4. Very low involved
5. Almost no

1.19 If the answer for question 1.17 is no, have you improve by such practice or trained?

Yes _____ Why _____

No _____ Why _____

1.20 What interest rates you normally pay on

a) Voluntary savings _____ %

b) Compulsory savings _____ %

1.21 Would you please share the information pertaining to the following heads for the last three years?

	1996 E.C	1997 E.C	1998 E.C
Size of smallest loan			
Size of largest loan			
Average loan size			
No of borrowers			
Interest rate (on an average)			

1.21 Please mark (x) the reasons for not giving larger than average loan size?

- a) The reputation does not allow
- b) It is deliberately set by MFI executives/board of directors
- c) If the client did not want more than average loan
- d) It the larger loan require high guarantee
- e) It is because of the business activity
- f) Shortage of fund availability
- g) Others (specify)

1.22 Can you tell the progress made by your MFI towards financial sustainability

- a) Annual saving compared with total disbursement of the year at _____ %
- b) Annual loan collection as % of loans disbursed by _____ % (three years)
- c) Annual operating income as % of annual operating cost _____ (three years)
- d) Are you sure that self-sufficiency is continues by paying on in future when compared with previous experience?

Yes No

Questionnaires for MFI Clients

1. Region _____
Woreda _____
Kebele (peasant association) _____
Name of MFI _____
Name of client _____
Interviewer's name _____
Name of Supervisor _____
2. Name of the group
3. Current loan cycle
4. When you joined the program
5. Would you active borrower up to this time Yes No
6. At what level respondent participation would be
 - a) More than two years
 - b) About one year
 - c) A few months
 - d) Just joined now
7. How many amounts of loans you have taken from MF _____ birr
8. Have you ever failed to repay your loan on time? Yes No
9. In how many of these did you fail to repay your loan in time
(delinquency) _____ times?
10. How many times where you penalized for the late repayment
_____ times
11. How many days, on the average you have been late _____
12. Have you ever defaulted or completely failed to replay?
Yes No

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13. What is the cumulative value of all loans taken from the MFI
_____ birr

14. What about current savings amount _____

15. Ratio of saving amount to last loan _____

16. During the last year did you operate one or several of your own enterprises other than farming? Yes No

17. In the last 12 months which of your activities earned the high income? List in order of priority

Activity one _____

Activity two _____

Activity three _____

18. Did you work for someone else on monthly salaried basis?

Yes No

19. Did your net income during the last year?

1. Increase
2. Stay the same
3. Decrease
4. Other (specify)

20. What is your product cycle for the most important enterprise (activity)?

- a) Daily
- b) Weekly
- c) Monthly
- d) Bimonthly

21. What is the amount of your current available working capital (raw material, etc) for each activity)?

Working capital	Amount in birr
Raw material	
Finished products	
Liabilities	
Other	

22. Do you keep records on your activities Yes No

23. What is the total size of your holding _____ hectares?

24. Did you have income (cash or kind) from agricultural production?

Yes No

25. If yes, would you have special packages of farming for cash?

Yes No

26. During the last year did you make the following changes?

Types of investment	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Hired more workers	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Improved crop quality	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Bought inputs in prater quality	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Planted cash crops	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Purchase of animals	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Purchased transport facility	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Others	Yes <input type="checkbox"/>	No <input type="checkbox"/>

27. During the past agricultural season did you lease out any part of your land Yes No

If yes, how much did you receive for the leased land _____ birr

28. During the last year (season) have you rented in any land?

Yes No

If yes, how much did you pay for the land? _____ Birr

29. Ownership of house-hold assets

Item	Number owned	Have you acquired the items after joining the MFI?	
		Yes =	No
Radio			
Tape player			
House hold utensil			
Jele Ellery			
Bicycle			
Television			
Spring bed			
Watch			
Other			

28. During the year were there any improvements made to your housing

Yes _____ No _____

29. If yes, indicate which type improvement

Housing system _____

Improved sanitation _____

30. Are you storing on cereals, pulses, or any other food crops?

Yes _____ No _____

31. During the last year have you borrowed many?

Yes _____ No _____

32. If yes, from which sources

Friends _____ Birr Commercial bank _____

Money lender _____ Birr Relatives _____

MFI _____ Birr Iqubs _____

Idirs _____

33. Were you required to provide collateral or guarantor for the loans?

Yes _____ No _____

34. Have you continued to borrow from the MFI since then

- A. yes, regularly
- B. Yes, but only on and off
- C. I had left, but started again
- D. Any more

35. What you type of collateral you to provide to the MFI

- E. group collateral
- F. individual (personal)
- G. third party
- H. other

36. How is, the loan size determined to get a loan?

- i. Capital requirements of each applicants

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- ii. Business is base for decision
- iii. Simply fixed by MFI officials
- iv. Borrowers ability to make the required initial payment

37. If the amount given was inadequate what would you do?

- i. are you looking to borrow from other source
- ii. would you complain to the MFI
- iii. what you are feeling is wrong

38. If given the choice would you have preferred to borrow for some other purpose(s)

Yes _____ No _____

39. If yes, tell me about the activities in their order of priority

1st activity _____

2nd activity _____

3rd activity _____

40. Are the activities that you think are profitable but you could not undertake due to lack of credit?

Yes _____ No _____

41. If the term of the loan was inappropriate

1. explain why it is not appropriate _____

2. what would you think the appropriate duration _____

42. How frequently do you make repayments?

1. Weekly 2. Monthly 3. Bimonthly 4. End of loan term

43. What do you think is the basis for fixing repayment cycle?

1. the loan amount equally distributing to loan months

2. cash flow of borrower business activity

3. based on the borrower's repayment capacity

4. any other

44. To what extent could MFI loans be normally considering your specific circumstances? _____

45. How did you spend your loan amount for business activity and to non related business activity?

- In significant share of business
- Significant to house hold problems
- Evenly distributing to both
- Any other

46. Who decides on how to use the loan?

- a. you, yourself
- b. your spouse
- c. another family member
- d. any other

47. Did you have difficulty in repaying the loan?

Yes _____ No _____

48. If yes, what is the difficulties _____
49. Are the MFI staff monitor your loan utilization?
Yes _____ No _____
50. Do you agree that monitoring is important?
Yes _____ No _____
51. In your opinion, how satisfactory is maintoring
A. Satisfactory B. Unsatisfactory C. Don't known D. Other
52. Are the MFI staff repularly follow up timely repayment?
Yes _____ No _____
How many times a month? _____
53. Does your group always have power to approve the purpose for
which a group member borrows?
Yes _____ No _____
54. If a group member has other non-MFI loans, would the group allow
him to take MFI loan?
Yes _____ No _____
55. How often do you monitor whether members of your group use the
loans for intended purposes(s)
a. always b. mostly c. frequently d. sometimes e. never
56. Is monitoring easy to you?
Yes _____ No _____
57. Has your group ever failed to repay?
Yes _____ No _____
58. If yes, what actions where taken by MFI _____
59. Minimum size of group membership required for loan _____
60. Do you think/agree the group requirement is really necessary
Yes _____ No _____
61. If yes, Explain why _____
62. members of your group at current _____
63. Relationship of group members
Neighbors, friends, relatives, other _____, mark (x)
64. How is it easy to joint group?
Easy, very easy, relatively easy, difficult, very difficult.
65. How frequently does your group normally meet?
a. weekly b. biweekly c. monthly d. other
66. Do you think this is necessary and appropriate?
Yes _____ No _____
67. Do you find the meeting useful?
Yes _____ No _____

68.If yes, what are the main advantages? _____

69.Have you attend meetings regularly?

Yes _____ No _____

70.How long time does a meeting normally take? _____

71.Are you still in the group you started with?

Yes _____ No _____

If no, how many times you changed your group? _____ times,

72.What was the main reasons for leaving the

1st group _____

2nd group _____

3rd group _____

73. Would you have preferred to borrow individually rather than in group?

Yes _____ No _____

74. Have you ever been forced to sale assets to pay MFI loan?

Yes _____ No _____

75. Have you ever been forced to borrow order to repay an MFI loan?

Yes _____ No _____

76. Has a members of you group ever been forced to sale assets to repay MFI loan?

Yes _____ No _____

77. Did you have a group member who has to borrow in order to repay MFI loan?

Yes _____ No _____

78. Over all, have the services/products of the MFI improved compared to the past?

Yes _____ No _____

79. What are things that you like about MFI program _____

80. What are things that you dislike about MFI program _____

81. What are your suggestions? _____

82. What other services /producers would you like the MFI to introduce? _____

83. Have you made any personal saving other than MFI?

Yes _____ No _____

84. How much did you save an average yearly? _____

85. Do you think the compulsory saving requirement is useful?

Yes _____ No _____

If yes, explain _____

If no _____

86. Can you access to get back your compulsory saving when needed?

Yes _____ No _____

87. Can you access to your compulsory saving at emergency period?

Yes _____ No _____

How ling it takes _____

1. What is the interest rate you get on your savings? _____
2. Do you think this interest rate is fair? _____
3. Have you any voluntary saving _____
4. If you don't have voluntary savings with the MFI, can you tell me the reason?

	Yes	No
Unable to save		
interest too small		
prefer to join Iqub		
you want to save bank		
difficult to withdraw savings		
other		

5. Are you a member of an Iqub?

Yes _____ No _____

6. Please indicate your level of satisfaction dissatisfaction with each of the following products

Product	Degree of satisfaction				
	5	4	3	2	1
Type of loan					
Ease of borrowing procedures					
Interest rate charged by MFI					
Grace period on loans					
Size of loan					
Timelines of processing loans					
Repayment frequency					
Collection method					
Availability of individual loan					
Customer handling					
Accessibility of compulsorily saving in case of emergency					
Initial training provided to first time borrowers					
Reliability and ability of the MFI to meet you needs					
Other					

Declaration

I Bogale Boshe declare that this project paper entitled "**Micro Finance Market in Ethiopia**" is my own effort and study. I have conducted it independently except for the guidance and suggestions of the research supervisor. This study has not been submitted for any degree or diploma in this or any other university. It is offered here in partial fulfillment of the requirements for the degree of Masters in Business Administration.

Bogale Boshe

