

**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUTE STUDIES
MASTERS OF BUSINESS ADMINISTRATION (MBA) PROGRAM**

**THE ROLE OF ACSI IN ADRESSING FINANCIAL NEEDS OF WOMEN
CLIENTS ENGAGED IN MICRO AND SMALL ENTERPRISES: THE CASE
OF BAHR DAR BRANCH**

**A PROJECT SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF
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STATEMENT OF DECLARATION

I, Gedam Mandefro Abate, declare that this study is my original work and has not been presented for a degree in any other University and that all the materials used for this study have been duly acknowledged.

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Addis Ababa University
School of Graduate Studies
Master in Business Administration (MBA)

**The Role of ACSI in Addressing Financial Needs of Women Clients Engaged in
Micro and Small Enterprise: The case of Bahir Dar Branch.**

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ABSTRACT

Poor people in general lack access to financial services from formal financial institutions. Poor households pursuing micro and small enterprise are excluded from formal institutional credit service. This is because of the high collateral and antiquated lending practice of the formal institutions. Microfinance institutions are considered as a promising source for micro and small business operator specially women throughout the world. Therefore, it is vital to evaluate the role of microfinance programs in addressing financial needs of women engaged in micro and small business sector.

The existing operation of the formal financial institutions (Banks) in Ethiopia is inefficient in providing financial services to the poor. Microfinance is considered to meet the gap created by the conventional financial institutions by providing financial service for the productive poor specially women so that they can engage themselves in productive activities, i.e. micro and small business activities. In order to investigate the fundamental premise, this study examined empirical evidence in Amhara Credit and Saving Institution to know its role in addressing financial needs of women clients.

Therefore, the objective of this study is to assess the source of startup and working capital, working capital and funds for expansion of the business during operations for women engaged in MSEs sector and to what extent ACSI helps women to address their financial needs. Primary data were collected through interview with manager of the branch office and some selected women clients. Secondary data were gathered from different literature and MFIs reports and publications. The research is both quantitative and qualitative in nature.

Descriptive analysis was applied in the study. The role of microfinance is analyzed based mainly on clients' profile, sources of startup capital, sources of working capital, loan methodology and loan size. The finding indicates that ACSI has made significant contribution to address working capital needs of women clients than the other sources of funds of women. However the result also indicates that ACSI has benefited men than women, the loan size is very small to the needs of women, the procedure and regulations are very restrictive to access the loan. Therefore, modifications of loan size and flexibility in operational activities would be appropriate to address financial problem of women in the sector.

ACRONYMS

ACSI:	Addis Credit and Saving Institution
AEMFI:	Association of Ethiopian Microfinance Institution
MFIs:	Micro Finance Institutions
MSE:	Micro and Small enterprises
NGOs:	Non Governmental Organizations
ORDA:	Organization for Rehabilitation and Development in Amhara

LIST OF TABLES

Table 4.1: Loan distribution of the branch.....	28
Table 4.2: Types of Activities women clients engaged in	30
Table 4.3: Age of clients business	31
Table 4.4: source of startup capital	31
Table 4.5: Sources of working capital and proportion of their contribution	32
Table 4.6: Frequency of Loan	34

Contents

STATEMENT OF DECLARATION	i
ACKNOLEDGEMENTS.....	iii
ABSTRACT.....	iv
ACRONYMS.....	v
LIST OF TABLES.....	v
Chapter One	1
1 Introduction.....	1
1.1. Background of the study	1
1.2. Statement of the problem	5
1.3. Objectives of the Study.....	6
Chapter Two.....	9
2 Review Related Literatures.....	9
2.1 An overview of Theoretical Literature	9
2.1.1 Meanings of Microfinance	9
2.1.2 The Need for Microfinance.....	10
2.1.3 Products and Services of Microfinance Institutions	11
2.1.4 Credit Delivery Methods of MFIs.....	13
2.1.5 Women focused Microfinance in the World.....	15
2.2 Review of Previous Empirical Studies	16
2.2.1 Microfinance Development in Ethiopia.....	16
2.2.2 An overview of Micro and Small Enterprise in Ethiopia	19
2.2.3 Women in Micro and Small Enterprise	20
2.2.4 State of Micro and Small enterprise Finance in Ethiopia	21
2.2.4.1 Formal Banks	22
2.2.4.2 Informal and semi-formal Finance-The Common source.....	22
2.2.4.3 Micro Finance Institution -the Promising Source.....	23
Chapter Three.....	24
3 Methodology of the Study	24
3.1 Research Strategy.....	24
3.2 Nature of Data and Method of Collection.....	24
3.3 Selection of Participants and Documentary Materials.....	25
3.4 Method of Data Analysis	25
Chapter Four	26
4 Data Presentation	26
4.1 Introduction.....	26
4.2 Institutional profile.....	26
4.3. Presentation of Secondary data.....	28
4.4 Presentation of Primary data.....	28
Chapter Five.....	35
5 Data Analysis	35
5.1 Introduction.....	35
5.2 Profiles of Clients of ACSI.....	35
5.3 Sources and Purposes of Credits.....	36

5.3.1	Sources of startup capital	36
5.3.2	Sources of funds for working capital	38
5.4	Loan procedure and regulations of ACSI	38
Chapter Six.....		42
6	Conclusions and Recommendations	42
6.1	Summery and Conclusion	42
6.2	Recommendations	43
References		44
Annexes.....		46

Chapter One

1 Introduction

1.1. Background of the study

About 90% of the people in developing countries lack access to financial services from formal financial institutions (Robinson, 2002). In many countries, poor people- ultra poor to those engaged in micro and small enterprises -are not usually beneficiaries of formal financial institutions (Banks), considers these unserved or underserved people none bankable (Demelash 2004, cited in Asefa, 2002).The main reasons for the exclusion of these group from the formal financial service as cited in the literatures are high transaction cost of small and repetitive loans required by the small scale business of the poor , lack information about business of the poor, lack property that may serve as a collateral and the informal nature of their businesses. These problems are more serious in the case of women as they are discouraged due to culture and tradition (Kavitha 2007).

Microfinance is sought as an alternative means of providing the poor access to financial services. To most, microfinance means providing very poor families especially women with very small loans to help them engaging in productive activities or grow their very small enterprises (Kavitha 2007). According to (Kavitha 2007). Microfinance brings the power of credit to the grass root by way of loans to the poor, without requirements of collateral or previous credit records. Experience shows that microfinance can help the poor to increase income, build viable enterprise and reduce their vulnerability to external shocks. It can also be a powerful instrument for self-employment, especially for women to become creative and productive agents of the economy through the establishment and expansion of micro and small enterprises (Kavitha 2007).

Micro and small enterprises (MSEs) are believed to have a vital role in poverty reduction, employment generation as well as economic development in poor countries like Ethiopia, (Haftu, et, al, 2009).The Ethiopian MSEs sector includes a diverse set of

operations ranging from petty traders to small restaurant owners; shoeshine boys to small shoemaking enterprises; peddler in the streets to grocery business operators, (Haftu, et, al, 2009).

In recognition of the important role of MSEs in creating employment opportunities and generating income, hence reducing poverty, the government introduced its first Micro and Small Enterprise Development Strategy in 1997. For directing its policy, and strategy, the Ministry of Trade and Industry adopted definition of micro and small enterprises based on the amount of paid up capital. Accordingly:

- ❖ Micro enterprises are those business enterprises with a paid up capital of less than birr 20,000 and excluding high tech consultancy firms and technology establishments
- ❖ Small enterprises are those business enterprises with a paid up capital of above birr 20,000 and not exceeding birr 500,000 and excluding high tech consultancy firms and technology establishments (MoTI,1997)

The study will take the above definition of micro and small enterprise as a working definition in Ethiopian context.

Although poor men as well as women face difficulties in establishing and expanding their micro and small enterprises, women have more barriers to overcome. Among those barriers are, negative socio-cultural attitudes, practical external barriers, lack of education and personal difficulties (Kavitha 2007).The most significant factor which affects women engaged in micro and small enterprise is limited access to capital and financial service from the formal financial institutions because women have less ownership of asset than men in the society (Berger 1989). Therefore, since poor women face many hardships in various perspectives as compared to men counterpart, special attention should be given for them so as to increase their access for financial service, (Tsion, 2006).

According to Kavitha,(2007) in order to facilitate the participation of women in micro and small enterprise; donors, government, and institutions should increase the availability of capital, develop lending programs that do not require conventional forms of collateral, replicate and expand existing successful methodologies for delivering small working capital loans, introduce saving mobilization component in the context of credit or other enterprise assistance programs, promote credit policies that are

open to both small scale enterprise activities and enterprise operating in trade and commerce where women have high participation rate.

The poor in Ethiopia have low income, which leads to low investment, which in turn lead to low productivity and income (Wolday 2003). Access to institutional credit that contributes to an increase in investment is very limited. The majority of the poor get access to financial services through the informal channels such as moneylenders, *Iqub*, *Iddir*, friends, relatives, traders, etc (Wolday 2003).

The demand of the poor for financial services in Ethiopia is met through the informal sectors (Friends, relatives, money lenders with very high interest rates, *Iqub* and *Iddir*), savings and credit cooperatives, multipurpose cooperatives, government projects and NGO's involved in savings and credit programs (Wolday 2003). However, microfinance service delivered by licensed institutions is regulated under the act of the parliament since 1996 under proclamation No. 40/1996. The proclamation authorized the National Bank of Ethiopia to supervise the establishments and managements of microfinance institutions. After this proclamation No. 40/1996, currently, 28 microfinance institutions (MFI) have been established and are operating in different parts of the country (Haftu, et.al, 2009). The development of MFI in Ethiopia is focusing on poverty alleviation by servicing exclusively the productive poor. MFI is providing micro credit to the poor that are not served by the formal financial institutions. Many of the MFI's have yet to give due emphasis to provide financial assistance to the poor women on their mission and vision statement (Mvula, 2007).

Women are, believed to be, very reliable microfinance clients demonstrating more discipline than men in making regular deposit and loan repayment (Fiebeg 1996). Considering the role of MFI in enhancing micro and small enterprise, the efficient delivery of financial service to address the financial needs of the sector particularly for women owned micro and small enterprise is very vital in Ethiopia (Mvula, 2007). Yet whether the microfinance institutions in Ethiopia promote women entrepreneurs by providing them sufficient startup capital, working capital and funds for expansion at suitable terms and condition requires further study.

1.2.Statement of the problem

Poor people especially women engaged in micro and small enterprise have limited access to credit from the formal financial institutions (Banks) in all developing countries in general and in Ethiopia in particular. Poor households pursuing micro and small enterprise are excluded in the formal institutional credit service. This is because of the high collateral and antiquated lending practice of the formal institutions (Solomon, 1996).

Women are prime victims of poverty because of no access to or control over production resources or asset (Mvula, 2007). According to Tassew and Tekie, (2000), the degree of poverty is higher for female headed households than for male headed households especially in urban areas. In Amhara region women constitute more than 51% of the population (CSA 2007). And majority of them live under poverty (Tsion 2006).The majority of the poor who are engaged in informal sector activities in urban areas are women (Hayat, 1997). They engaged in productive and reproductive work and have no time to devote to upgrade the skills (Hayat, 1997).There are few women in professional, technical and administrative field, which would indicate that women in general have little access to employment opportunities in the formal sector than men (Tsion, 2006).As the result women turn in to MSEs sector as means of employment to generate income for themselves and their family (Haftu, et,al, 2009).

However, micro and small enterprise sector face numerous constraints (Brhanue, 2002). Among these constraints which affected the sector in general women in particular in urban area include lack of sufficient initial and working capital, limited market, family responsibility etc,(Hayat,1997)

It is noted that the formal financial sector in Ethiopia does not provide financial service to poor households for income generating activates. In other words, the formal sector does not respond to the financial needs of the poor, micro-entrepreneurs, women and others (Brhanu,2002).In Ethiopia a loan size below Birr 100,000 is not attractive and profitable in the conventional banks because project appraisal and follow up is

expensive, micro and small enterprise operators do not keep records and lack collaterals(Wolda,2003). To alleviate this challenge another means should be devised to improve access to credit in order to expand micro and small business opportunities to the poor especially women (Tsion, 2006). It is believed that the provision of micro credit to poor house holds would increase their assets and income. As a result the government and some of the NGOs are involved in supporting micro and small enterprise through micro credit (Brehanu, 2002), considering micro and small enterprises as a major job creator and income generator. Hence, the provision of micro credit to the poor especially to women as a strategy designed to stimulate the contribution of micro and small enterprise in the expansion of employment opportunity as well as the growth of gross domestic product of the country in general (Tison 2006).

Amhara Credit and Saving Institution (ACSI) was established in accordance with proclamation No. 40/ 1996. The Institution has an objective of promoting micro and small enterprises to alleviate poverty and unemployment prevailing in Amhara Region through provision of sustainable financial and other related service with particular attention to women in urban and rural areas (ACSI, 2009). Currently ACSI is providing different types of loan and other financial service to achieve its objective .However, there is no practical research as to what extent microfinance institutions in Ethiopia in general including ACSI address financial needs of women engaged in micro and small enterprise sector. So, this research is directed towards assessing the role of microfinance in addressing financial needs of women engaged in micro and small enterprise by taking ACSI (Bahir Dar Branch) as a case study. With reference to the case study the researcher would like to address the following objectives.

1.3.Objectives of the Study

The general objective of this research is to assess the source of startup and working capital of women engaged in MSEs sector and to what extent ACSI helps women to address their financial needs. The specific objectives of the research are:

- ❖ To show ACSI client profile.
- ❖ To identify the source of start up capital of women engaged in MSEs

- ❖ To see the source of working capital of women engaged in MSEs.
- ❖ To examine the relevance and contributions of existing financial regulation and procedures to address financial needs of the women engaged in MSEs.
 - To assess the existing loan size of ACSI
 - Loan delivery (service) methodology and
 - Related provisions that affect the extent of financial service provisions
- ❖ Based on the findings, providing conclusions and possible recommendation.

1.4. Research Questions

To achieve the above objective the researcher raised the following research questions.

- ❖ What is ACSI's client profile in terms of gender and occupation?
- ❖ What are the sources of start up capital for women engaged in MSEs?
- ❖ What are the source of working capital for women in the sector
- ❖ Do the financial regulation and credit procedures (loan approach) fit the financial need of women engaged in micro and small enterprise?

1.5. Scope of the Study

The study is limited both conceptually and geographically. Conceptually it is limited to the role of microfinance in addressing financial needs of women engaged in micro and small enterprises, that is, by providing them sufficient start capital, working capital needs during operation and funds required for further development in case of need for business expansion. Financial service provided by ACSI Bahr Dar branch is taken as a case study for this purpose.

1.6. Significance of the Study

The issue of lack of finance is one of the fundamental problems of micro and small enterprise which is run by women since their access to formal financial institutions is very limited. To address this problem out of different strategies microfinance activity is an important instrument. In this regard this research assesses the role of ACSI in

addressing financial needs of women engaged in micro and small enterprise. The research attempts to find out whether the financing program of microfinance institutions in effect meets its target of enabling the poor and vulnerable specially the women through its financial services sufficiently. In doing so policies, procedures and methodologies of the services that affect the amount of loans provided other terms will be assessed. It is hoped that the result will help in revisiting the policy and procedures or at least invoke further studies to revisit the policies and procedures, in the areas of loan methodology, loan size and flexibility in handling.

1.7. Organization of the Paper

This paper has six chapters. The first chapter introduces the paper. Chapter two deals with the review of the related literature and chapter three presents the methodology of the study. Chapter four presents the report of the field work and chapter five is the analysis of the data in light of the literature. Finally chapter six presents conclusions and Recommendations of the study.

Chapter Two

2 Review Related Literatures

2.1 An overview of Theoretical Literature

2.1.1 Meanings of Microfinance

Microfinance has evolved as an economic development approach intended to benefit low income women and men (Ledgerwood 1999). The term Microfinance has been defined in various ways by several authors.

Microfinance refers to small scale financial services-primarily credit and saving provided to people who farm or fish or herd; who operate small enterprises or micro-enterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amount of land, vehicles, draft animals, or machinery and tool; and to other individuals and group at the local levels of developing countries, both rural and urban(Robinsson,2001).

Ledgerwood, (1999) has also defined microfinance as a term that refers to the provision of financial services to low income clients, including the self-employed. She elaborates her definition as: Financial service generally includes savings and credit; however, some microfinance organizations also provide insurance and payment services. Moreover, microfinance institutions provide social intermediation services. Thus the definition of microfinance often includes both financial intermediations and social intermediation. Leleux, (2007) defines microfinance as the term used to denote both micro and small business finance i.e. the provision of credit products and other financial services to micro and small businesses operators. According to this definition microfinance is a financial service provided to some special groups of people.

“Microfinance is a type of banking service that provides financial service to unemployed or low income individuals or groups who would otherwise have no other means of gaining access to financial services”(Kavitha,2007). This definition indicates that microfinance service is to give low income people an opportunity to have access to financial resource that would help them to be engaged in productive activities. Microfinance is essentially for promoting self-employments: the opportunity for employment are limited in developing countries, it increases the productivity of self-employment in the informal sector of the economy. It is not just a financing system, but

tool for social change, especially for women-it does not spring from market forces alone-it is potentially welfare enhancing (Kavitha, 2007).

In general, many writers associate microfinance with the provision of small loans to the poor and self-employed people. It is understood that the microfinance industry developed from a history of micro credit programs to a broader range of products and services, including credit and savings, insurance, money transfer, social services and intermediation. In addition, many writers put microfinance in more general terms as the provision of financial services to those excluded from the formal financial institutions and reaching those excluded from formal financial services not only due to economic reasons but also due to cultural and other social reasons and discriminations. Thus, effective microfinance service is a means to overcome access barriers of financial service for variety of clients who are excluded from the formal financial service.

2.1.2 The Need for Microfinance

It has been estimated that there are 500 million economically active poor people in the world operating micro enterprises and small business (Women's World Banking, 1995, cited in Ledgerwood, 1999). Most of them do not have access to financial services. In many countries, the low income population is not a beneficiary of the formal financial institutions (Banks). The banks consider the poor non-bankable. This gap was first recognized by Mohammed Yunus who is accredited as the innovator of microfinance institutions to meet substantial demand for financial services of low-income micro entrepreneurs.

Factors such as too small amount of loan requirements for business, lack of information about clients, too far to visit clients etc make formal financial institutions (Banks less attracted to invest on tiny informal businesses. This implies that low income men and women face formidable barriers in access to formal financial institutions (Banks) (Abadi, 2007).The involvement of microfinance institutions is to fill the gap created by poverty, illiteracy, gender and remoteness (Ledgerwood, 1999).

So as to address the financial needs of the poor, microfinance institution are expanding and growing throughout the world since 1980s. Microfinance institutions have been improved the

welfare of the poor (Schreiner, 2002). They are considered as developing organizations to serve the financial needs of those unranked poor men and women (Ledgerwood, 1999).

Poor men and women that are excluded from formal financial services can be addressed through small loans and savings provided by microfinance institutions. Access to credit and deposit services is a way to provide the poor with opportunities to take an active role on their respective economies through entrepreneurship, building income bargaining power and social empowerment among poor women and men.

2.1.3 Products and Services of Microfinance Institutions

Microfinance institutions can offer their clients a variety of products and services; first and foremost they provide financial services such as credit, saving, and insurance. Microfinance can not operate like most formal financial institutions because the nature of their target clients are poor men and women without tangible assets that can be taken as collateral.

In addition to the financial product and service, some microfinance institutions provide enterprise development services, i.e., training and basic business training (like book keeping, marketing and production) or social services such as health care, education and literacy training that enable the low income people to open micro enterprises either directly or indirectly. However, it does not mean that all MFIs provide all the services. Deciding which service to offer depends on the MFI's objective, the demand of the target market, existence of other service providers, and an accurate calculation of the costs and feasibility of delivering additional services (Ledgerwood, 2002).

Within the framework of microfinance institutions there are four broad categories of services that can be provided to clients. These are financial intermediation, social intermediation, enterprise development service and social service, but it is not a blueprint that all MFIs should offer all four categories of services to their clients. That is, one can offer one service, or multiple services depending on its objectives and its capacity to manage every activity.

2.1.3.1 Financial intermediation

The primary role of microfinance institutions is to provide financial intermediation that involves the transfer of financial accounts from those who have excess at a particular time to those who have shortage and are unable to get access to the formal banking services. Virtually, all microfinance institutions provide credit services and additional services such as savings, insurance and payment services. According to Ledgerwood the two key imperatives that must be considered when providing financial intermediation are; to respond effectively to the demand and preferences of clients and to design products that are simple and can be easily understood by the clients and easily managed by the MFI. The choice and method of providing such services depends on the objective of the MFI, the demand of targeted market and the institutional framework. In general, the range of financial products commonly provided includes; credit, savings, insurance and payment services.

2.1.3.2 Social intermediation

Social intermediation is the process of building the human and social capital required by sustainable financial intermediation for the poor. Successful financial intermediation is often accompanied by social intermediation (Abadi, 2007). Social intermediation prepares marginalized groups or individuals to enter into solid business relationships with MFIs; financial intermediation depends on social capital, because it does not depend on trust between the traditional system nor modern institution provide a basis for trust. Financial intermediation systems are difficult to establish social intermediation thus, it can be understood as the process of building the human and social capital required for sustainable financial intermediation with the poor (Abadi, 2007).

MFIs that provide social intermediation services most often do so through groups, but some also work with individuals. Group social intermediation is defined as the effort to build the institutional capacity of groups and invest in the human resources of their members, so they can begin to function more on their own with less help from outside (Abadi, 2007).

However, not all social intermediation results in the formation of groups or are always provided by the same institution that provides the financial intermediation. In West Africa, NGOs or other

local organizations visit remote villages where access to financial services is limited to develop awareness among individual open accounts and managing their funds, and generally increase their intermediation services for individuals can be provided by MFI itself or by other organization attempting to link low-income clients with the formal financial sector (Ledgerwood, 2002).

2.1.3.3 Social Services

Social services that focus on improving the wellbeing of micro entrepreneurs include health, nutrition, and education and literacy services. While social services are often provided by state, a local NGO, or a community organization, some microfinance institutions have chosen to provide social services in addition to financial intermediation. In this way, they are able to take advantage of contact with clients during loan disbursement and repayment. The delivery and management of social services should be kept as distinct as possible from financial intermediation services; i.e., they must clearly identified as separate from credit and savings service (Abadi,2007).

2.1.4 Credit Delivery Methods of MFIs

Credit is borrowed funds with specified terms for repayment. When there are insufficient accumulated savings of finance a business and when the return on borrowed funds exceeds the interest rate charged on the loan, it makes sense to borrow rather than postpone the business activity until sufficient savings can be accumulated; assuming that the capacity to service the debt exists (Waterfield and Duval, 1996 cited in Ledgerwood, 1999).

Loans are generally made for productive purpose that is, to generate revenue with in a business. Some MFIs also make loans for consumption, housing, or special occasions. While many MFIs insist that only productive loans are made to any loan that increased the liquidity of the household fees and up enterprise revenue which can be put back into the business (Ledgerwood, 1999).

According to Ldegerwood 1999, credit delivery methods can generally be classified in to two broad categories, i.e., individual and group lending approaches, based on how the MFI delivers and guarantees its loans.

Individual lending is a system offering loans that are delivered to individuals based on their ability to provide the MFI with assurance of repayment and some level of security. MFIs have developed effective model which combined formal lending with informal lending. Formal lending model based decisions dependant on business and client characteristics, including cash flow, debt capacity, historical financial results, collateral and characters. Though the formal sector lenders have used personal guarantors to motivate clients to repay loans, MFIs have often not used such models because many micro business owners do not have adequate assets. Informal lending models approve loans based on personal knowledge of the borrowers rather than a sophisticated feasibility analysis, and they use informal collateral sources. Individual lending requires frequent and close contact with individual clients. It is most often successful lending on urban areas where clients access is possible. In both rural and urban areas, individual lending is often focused on financing production oriented business whose operators are generally better off than those in extreme poverty (Ledgerwood, 1999).

Group based lending makes loans to groups, i.e., either to individuals who are members of group and guarantee each other's loans or to groups that then sub loan to their members. The group is a collection of people who have a common wish to access financial services. Group lending approaches have the model of rotating savings and credit associations to provide additional flexibility in loan sizes and terms and generally to allow borrowers to access funds when needed rather than having to wait for their turn.

In microfinance literature group lending approach has an advantage of use of peer pressure as a substitute for collateral. Many group –based lending programs target the very poor, who cannot meet the traditional collateral requirements of most financial institutions. Another advantage of group lending is that it may reduce certain institutional transaction costs. By shifting screening and monitoring costs to the group, an MFI can reach a large number of clients even in the face of systematic information through the self-selections of group members as the member of the same community generally have excellent knowledge about who is a reliable credit risk and who is not (Ledgerwood, 1999).

While numerous potential advantages of group lending has been reported, there are still several disadvantages. According to Bratton 1996 cited Ledgerwood 1999 group lending have better repayment rates than individual lending programs in good years but worse repayment rates in

some type of crisis. If several members of a group often collapses, lending to a domino effect. Another disadvantage is that all the group members are financially punished for the irresponsible repayment of one of the group member.

2.1.5 Women focused Microfinance in the World

Until recently microfinance institutions were considered as tools for reducing poverty all over the world. Now there is a need for expanding the objectives for the delivery of microfinance services to poor men and women. One of these objectives could be to help the poor improve productivity in their micro enterprise. Among the dispiriting news excitement is building in other corners of the world, because of the coming in to existence of a set of unusual financial institutions which are providing prosperity amongst the poorest of the poor in places like Bolivia, Bangladesh, and Indonesia (Mvula, 2007).

Poverty can be alleviated and that economic and social structures can be transformed fundamentally by providing financial services to low income households. Most of the borrowers do so to finance self employment activities by taking small loans amounts (Morduch1999). Some of the microfinance institutions programs serve just a handful of borrowers, while others targets and serve a large number of clients, in the past two decades, adverse assortment of new programs have been set up in Africa, Asia and Latin America, Canada and roughly in about 300 cities from new York to Sandiego, California, (the Economist.1997, cited in Mvula, 2007).

Accordingly micro-credit programs for the poor have come to occupy central place in poverty oriented strategies in Bangladesh, such programs have a number of features in common. They are largely targeted to women, because like other parts of the world poverty strikes women most at the core of their being, because of the enormous responsibilities which they shoulder as mother to their own children and to those of the extended family.

Women clients are largely targeted because of the way they are trusted with the repayment of the borrowed funds. Women repayment rates are excellent all over the world in whichever program they are involved as borrowers of funds, this renders them good for economic efficiency (Kavitha., 2007).many programs with high female participation rates such as Grameen Bank in Bangladesh, women world banking in the United States of America, Self Employed Women's

Association (SEWA) of India, all have successful repayment records and are relatively very successful, (C.J.Weide mann, 1992, cited in Movula, 2007).

Self Employed Women's Association is a trade union for illiterate women in India. It was established in 1972, to enable uneducated women to access credit for the development of their small enterprises. More than 40,000 women have benefited from SEWA since its establishment, (Kavitha, 2007). SEWA Bank tries to adopt traditional banking practices to meet the needs of its self employed members. When extending loan amounts to its clients the Bank takes into account the character and socio economic background of the applicants, their capability to repay the loan amount, they also take as collateral items such as Jewelry, (Movula, 2007). In most cases MFIs, do not require collateral from its clients, however SEWA requires collateral from its clients using different methodology of lending from other institutions.

The Grameen Bank, has made commendable achievement in poverty alleviation through the creation of income generating opportunities for the poor by providing them with adequate financial services, with special focus on women clients, (Kavitha 2007). In Grameen Bank one of the most important and almost universal characteristics of microfinance has been that 90% of the borrowers are women.

2.2 Review of Previous Empirical Studies

2.2.1 Microfinance Development in Ethiopia

In Ethiopia, though savings and credit programs were operated for a number of years by NGOs. Microfinance operation in a regulated form is a relatively new phenomenon. The operation was for the first time undertaken by the Market Town Program of the World Bank. This program was implemented jointly with the Development Bank of Ethiopia and the Bureaus of Trade and Industry in what was then called: 16 Market Towns in phase one and then spread to all the major towns of the country. Most of the borrowers were women, (Tsehay and Mengistu, 2002).

Microfinance services were introduced after the demise of the Derg regime following the policy of economic liberalization. Microfinance is taken as a shift from government and NGOs subsidized credit programs to financial services run by specialized financial institutions. With

this shift some NGOs and government micro-credit programs were transformed to microfinance institutions, (Degefe, 2009).

Microfinance institutions started proliferating following the issuance of proclamation No 40/1996 which regulated the business of microfinance in the country. The National Bank of Ethiopia, that is the licensing authority, has since been issuing a number of guidelines that underpin the operation of microfinance in the country (Teshay and Mengistu, 2002). The regulatory framework was put in place as part of government's effort to liberalize the financial sector and lay down an alternative institutional frame work to provide financial services mainly to the rural poor to boost agricultural production enable food self-sufficiency and reduce poverty. Most importantly experts observing the unsound financial practices of NGOs, and government agencies recommended the regulatory framework to promote more systematic financial service provision and bring microfinance in the country with in the existing financial system (Degefe, 2009).

Currently, there are 28 MFIs in the country, of which 12 are licensed to operate in regional states and the rest are licensed to operate nation wide. They provide financial service, mainly credit and saving and, in some cases, loan insurance. Almost all microfinance institutions in the country have poverty alleviation as an objective. They are thus meant to address the lower strata of micro-entrepreneurs including those engaged in activities that are started and operated just for survival (Haftu, et, al, 2009).

However, most of the microfinance institutions in the country are relatively young. They seem to replicate each other instead of innovating their own approach. Their financial products are almost the same with the exception of a few microfinance institutions that have recently started adding some new products. The loan sizes of most of the microfinance institutions t are too small that some of their clients outgrow it very quickly. Some of the causes for high client drop out in both rural and urban areas seem to be small loan size , lack of product diversification on the part of the MFIs, lack of flexibility in approach, etc (Haftu,et,al,2009)

The Nation Bank of Ethiopia directive issued in 2006(MFI/18/2006) allows MFIs to provide larger loans to individuals using appropriate collateral, subject to single borrower limit of 1 % of their capital. On the bases of this framework, some MFIs started extending relatively larger loans

for working capital and for investment in cases where government agencies like Micro and Small enterprise development agency are involved in the recovery of loans through different linkage mechanisms. Relatively bigger amounts of working capital loans are extended to those who have established businesses or can offer collateral in fixed asset form. (Haftu, et, al, 2009)

The potential demand for micro-credit in Ethiopia is enormous. For example, if we assume that there are 15 million households in Ethiopia; targeting one person per household who require micro-credit and also assuming half of the households are able poor, then over 7.5 million active clients will require micro-credit. However, there is very limited supply of financial services to the poor household (Wolday, 2002). According to Wolday,2002 the major sources of loan or financial service in Ethiopia are; formal banks, Microfinance Institutions, Cooperatives, NGOs which are involved in the delivery of financial services, government projects and programs involved in providing loans, semi-formal finance(Iqub, Iddir, Mahiber) and, informal finance(private money lender, traders supplier credits, friends, and relatives)

The conventional banking sector in Ethiopia has been too weak to serve the needs of poor people due to limited branch and high collateral requirements. Moreover, the formal bank sector considers the poor as credit risks (Haftu,et,al, 2009)..

Access to institutional credit that contributes to an increase in investment is very limited. The majority of the poor get access to financial services through the informal and semi formal channels such as private money lenders, Iqub, Iddir, friends, relatives, traders, etc,(Wolday and G/Hiewot,2006). The informal lenders such as the money lenders, traders, friends and relatives are able to enforce loan contracts and their loan recovery rate are high and the loan terms are flexible. However, the interest rates are very high. The semi-formal lending institutions such as Iqub and Iddir are the dominant and sustainable traditional institutions which meet the financial and social needs of the poor. Iqub is the dominant form of saving and credit cooperatives in Ethiopia which is popular in both urban and rural areas, Iqub is not a permanent club; it could be continued or dissolved after its members have a turn, (Wolday, 2002).

The conventional banking sector in Ethiopia has been too weak to serve the needs of poor people due to limited branch and high collateral requirements. More over, the formal bank sector considers the poor as credit risks. As the result, The Formal Bank of Ethiopia do not have

mission of financing the poor in micro and small Enterprise sector (Wolday, 2002). Thus, MFIs and savings and credit cooperatives should be designed to respond to the failure of the conventional banks to serve the financial needs of small farms and micro and small enterprise operators. Thus, delivering financial services to the poor requires financial systems that reach the poor and an innovative targeting methodology and credit delivery mechanisms that helps identify and attract only the poor who can initiate and sustain productive use of loans.

2.2.2 An overview of Micro and Small Enterprise in Ethiopia

Micro and small enterprises (MSEs) are believed to have a vital role in poverty reduction, employment generation as well as economic development in poor countries like Ethiopia. The Ethiopian MSE sector includes a diverse set of operators ranging from petty traders to small shoe making enterprises; peddler in the streets to grocery business operators, etc (Haftu, et, al, 2009). In Ethiopia, like in any other developing countries, medium and large scale manufacturing or service giving sectors are do not create enough jobs to absorb the ever increasing labor force, especially in urban areas. Different factors contribute to this situation. These include town-ward migration, population growth, land lessens, structural adjustment policies e.t.c., (Haftu, et, al, 2009). In such situation MSE may be recommended as source of livelihood for poor and unemployed people like in both urban and rural areas and have critical potential role in poverty reduction and economic recovery and growth.

Although, the contribution of micro and small enterprises on deployment, production and poverty alleviation is generally recognized, Wolday, 2002 specified the role of MSEs as:

- Powerful instrument in economic growth
- Source of entrepreneurship and improving the skill of workers
- Important source of employment and source of income
- Center of innovation and means of realizing equitable income distribution
- As a means of adopting flexibilities to the local market
- The average capital cost per job creation is low (needs smaller capital base)

In recognition of the important role of MSEs in creating employment opportunities and generating income, hence reducing poverty the government introduce its first micro and small enterprise development strategy in 1997 (MoTI, 1997).

2.2.3 Women in Micro and Small Enterprise

In spite of the enormous importance of the micro and small enterprise (MSEs) sector to the national economy with regards to job creation and the alleviation of abject poverty among impoverished women in Ethiopia, the degree of recognition and strategic support provided to the sector is grossly inadequate (Eshetu and Zeleke, 2008). Although several economists have argued that the promotion of women in the sector is a prerequisite for overall economic growth, meaningful assistance from the national government in terms of access to finance and skills required for operating micro and small enterprise profitably and efficiently is limited. Although, the micro, small and medium enterprises sector in Ethiopia provides livelihood to 49% of all employed women in the country, the strategic support it receives from the government has been minimal, (G/Hiwot and Wolday, 2006).

According to the Ethiopian Central Statistical Authority (2004), almost 50% of all new jobs created in Ethiopia are attributed to micro and small enterprises, and roughly 49% of new business that were operational between 1991 and 2003 were owned and operated by women. However women in the sector face many challenges both when they start their business as well as at later stage when there is a need to expand or diversify the activities of their enterprises. For instance women face difficulty in raising finance from banks as well as borrowing via informal networking. Women headed enterprises started their business with less capital than their male headed business and get less access for financial service both from the formal financial institutions and informal financial sources.

According to the Ethiopian Economic Association report 2004, cited (Eshetu and Zeleke, 2008), micro and small business and enterprises operated by women entrepreneurs contribute significantly to the national economy, but are provided with little or no policy related support from the ministry of trade and industry. Women in the sector often experience severe problems in terms of finance, as well as technical skills.

Rahel (2004) have reported that women do not have adequate access to finance from conventional banks and that they rely heavily on indigenous social capital schemes called "Iqub" for raising finance needed for their venture. The key challenges faced by the sector are lack of

access to finance on favorable terms from banks. According to G/Hiewot and Wolday, (2006), the Ethiopian Ministry of Trade and Industry has not done enough to alleviate the acute shortage of finance experienced by women in micro and small enterprises sector.

2.2.4 State of Micro and Small enterprise Finance in Ethiopia

Starting a new business is a very difficult task and finance has been identified by several studies as one of the primary reasons that hinder many potential entrepreneurs from fulfilling their dreams,(Haftu,et,al,2009). The poor in Ethiopia have low income that leads to low investment which in turn leads to low productivity and income,(Wolday,2003). The poor in general, women in particular starting a new business, most often as micro business or small business, are unable to obtain loans or any form of financing from the formal financial institution or conventional banks, (Yared and Seneshaw, 2008). As the result, access to institutional credit that contributes to an increase in investment is very limited in Ethiopia. The poor get access to financial services through the informal channels such as money lenders Iqub, Iddir, friends, relative's traders, (G/Hiewot and wolday, 2006)

According to the survey conducted by the Ministry of Trade and Industry 1997, 50% of the micro business operators indicated that their main problem in operating their business was lack of sufficient initial capital. It was reported in the survey hat the major problem of about 35% of the small scale enterprise was lack of sufficient initial capital particularly at the start of their operation. It only when the business has been operating for some time, usually as a micro enterprise or small scale that an attempt is made to seek financing from bank for further development and expansion. Only then is there any likelihood of obtaining access to funds from such financial services, although it will never be easy, (Yarad and Seneshaw, 2008).

According to Yared and Seneshaw, 2008, the formal and informal source of finance for micro and small enterprise operator classified in to three kinds: Informal and semi-formal finance, Microfinance institution and Formal commercial banks (Government and Private).

2.2.4.1 Formal Banks

The capacity of the formal banking system have been too limited in serving the needs of micro and small enterprises and their loan conditions are not designed to meet the needs of the majority of micro and small enterprise operator (Yared and Seneshaw, 2008).

Despite the large number of micro and small enterprise in the country, their access to financial service for vertical growth and diversification of activities is limited. Formal banks policies (public and private) alike make fixed asset collateral mandatory, thereby excluding MSEs from the credit market. Furthermore, due to various reasons, MSEs are considered high risk for commercial bank lending. Consequently, the conventional banks in the country do not dare to venture in to financing of MSEs (Haftu, et, al, 2009). One of the key reason given is financing MSEs is costly because the size of the loans involved is small making the transaction cost per unit of loan high (Wolday, 2002).

Currently, MSE operator prefer to access loans from microfinance institutions even the very few that can offer fixed asset collateral. This is so, because the loan processing methods of the commercial banks is considered lengthy and does not seem to be suitable for the nature of work of micro and small enterprise operator which at times depends on grabbing opportunities as they come and so do not afford to wait till tomorrow(Haftu,et,al,2009).

2.2.4.2 Informal and semi-formal Finance-The Common source

This system includes entities operating outside of the domain of the National Bank of Ethiopia. It includes the financing from families and friends, supplier credit, private money lenders and semi formal lending institutions, such as the rotating savings (Iqub) and credit associations. These are dominant and sustainable traditional institutions that meet the financial and social needs of micro and small business operator specially women, (Yared and Seneshaw, 2008).

These forms of financing reach deep down to the poor who is not the focus or target of formal financial institutions. These types of financing have also nurtured the social values of the society. Iqub, the dominant form of credit and savings in urban and rural areas, is the most popular and

periodic lending option for micro and small enterprises willing to mobilize in saving groups. Members are required to attend scheduled meetings and the group can be dissolved or continued after each member has had a turn at borrowing (Wolday, 2002). However, the main challenge in here is that money lending is a high risk form of financing , since the client is required to repay the loan , usually at the end of each trading day, whether they have sold all of their goods or not. Interest rates and repayment terms are often quite flexible, but could be as high as 200 percent, (Yared and Seneshaw, 2008).

2.2.4.3 Micro Finance Institution -the Promising Source

Microfinance consists of lending very small amounts of money both to individuals and to groups for very short periods of time with out requiring traditional forms of collateral. It is the financial systems approach emphasizes on large-scale outreach to the economically active but poor, both to borrowers who can repay micro loans from household and enterprise income streams, and to servers (Wolday, 2002). This approach focuses on institutional self-sufficiency because given the scale of the demand for microfinance this is the only possible means to meet widespread clients' demand for convenient, and appropriate financial services (Robinson,2001)

Chapter Three

3 Methodology of the Study

3.1 Research Strategy

Quantitative research design is used in situations where there are predetermined instrument based questions, performance data, attitude data, observational data. Qualitative methods are used for emerging methods, open ended questions, interview data, observation data, document data, and audio visual data. Mixed methods research on the other hand, are used for both predetermined and emerging methods, with both open ended and closed ended questions (Creswell, 2003).

As it was stated in earlier chapters, the study is undertaken on a case method by taking Bahirdar branch as a case study. Both qualitative and quantitative research designs (mixed methods) is used for the study. This is because performance analysis (number of total clients , proportion of men and women, amount of loan distributed, loan share of men and women ,) is done in addition to the open ended interview questions asked to the manager of the branch office and women clients.

3.2 Nature of Data and Method of Collection

The study used both primary and secondary data. For collecting the primary data, interview was found to be appropriate. The main sources of information are the manager of the branch and some selected women clients of the branch. An intensive/open interview was undertaken with them. . Secondary data was collected by analyzing documents possessed by the branch, the institution and Association of Ethiopia Microfinance Institution (AEMFI).The report of the branch has been analyzed to see the level of outreach and its beneficiaries. The operational manual of the institution has been reviewed to see the criteria that the institution (ACSI) required from its clients. Comparative performance indicator report of AEMFI was reviewed to see sustainability of ACSI compare with other microfinance institution in Ethiopia and Africa.

3.3 Selection of Participants and Documentary Materials

It was stated previously that the subjects for the study is Bahir Dar branch. The branch is selected for the study because the researcher personally knows the area and hoped that the necessary information could be easily collected.

The interview was conducted on schedules which were arranged by the manager of the branch. The interview was conducted both with the manager of the branch and with 20 women clients selected as a key informant. The response from the interviewee was summarized in relation to the objective and research questions of the study. Even if a number of questions were asked during the interview, they are compressed in to six question for the manager and eleven questions with the clients for analysis purpose.

In order to support the interview results, secondary data was collected from the annual reports of the branch, operational manual, bursars and other documents of the institution, reports of AEMFI.

In addition to the aforementioned sources, the researcher tried to refer different books, published and unpublished documents, journals, articles and research papers to get information on the theoretical frame work of the study.

Some difficulties were encountered in the data collection process. Among those, shortage of time for the respondents to undertake the interview and absence of organized data in the branch were the major ones.

3.4 Method of Data Analysis

The primary and secondary data collected was analyzed descriptively by summarizing the responses from the manger of the branch and women clients of the branch according to the research questions. In addition simple statistical tools; average, percentage were used to analyze data.

Chapter Four

4 Data Presentation

4.1 Introduction

This part of the paper presents the result of the field work. It has two main parts; the first part focuses on presentation of secondary data collected from the publication, operational manual of ACSI and reports of the branch office. The second part assesses primary data that are collected through interviews with the branch manager and 20 clients who are taken as key informants.

4.2 Institutional profile

Amhara Credit and Saving Institution(ACSI) was initially established in October 1995 as a department with the former Ethiopian Relief Organization(ERO), the current Organization for Rehabilitation and Development in Amhara (ORDA), an indigenous NGO engaged in development activities in the Amhara region. (ACSI, 2009).

The aim of Amhara Credit and Saving Institution (ACSI) is established to fill the gap of formal financial institutions to meet the need of small-scale borrowers in income generation schemes. 1996 was the year when ACSI had undertaken its pilot activities. And was licensed by the National Bank of Ethiopia as a micro finance Institution in April 1997 (ACSI,2009).

Currently ACSI is providing financial intermediaries' service in the region. Its financial product comprises: credit, saving, micro-insurance, fund administration and money transfer.

To day ACSI is one of the largest microfinance institutions in Ethiopia. It is successful in addressing the financial needs of rural and urban households in a sustainable manner. ACSI has been successful in achieving impressive outreach, efficiency, financial and operational sustainability and high portfolio quality. (Carter Garber, 2007)

Mission

It is to improve the economic situation of low income, productive poor people in the Amhara region primarily through increased access to lending and saving services which will maintain

cost effectiveness in service delivery and integrates its activities with government and NGO's working towards achieving food security and poverty alleviation in the region. (ACSI, 2009)

Vision

It aspires to see people of the region liberated from grips of abject poverty, with all the power determining their future in their own hands, and to ensure its institutional sustainability (ACSI, 2009).

Objectives

- Promoting agricultural and non-agricultural economic activities;
- Alleviating poverty and stimulating the region's economic growth, giving priority to rural and remote communities, particularly for women;
- Increasing clients' income and asset position significantly; and
- Promoting sustainable financial services, both operational and financial.

Loan service applicant recruitment criteria

- They should be resident of the city and in respective kebele
- They should be economically poor but productive
- Their age should be within the range of 18-60
- They have to organize themselves in group of 5 and more individuals
- They should be free from loans of any other institution
- They should accept the rules and regulations of the institution
- With all these criteria, priority will be given for women applicants
- Their monthly income should not more than 1100 birr

Source: ACSI Operational Manual For microfinance activities June, 2006.

Loan Products of ACSI

1. Small scale loan for economically productive poor as initial and working capital,
2. Agricultural (fertilizer, improved seed, pests, and chemicals) for farmers.
3. Asset loan for house construction, maintenance and furnishing
4. Micro and small enterprise loan and
5. Package loan (food security)

Source: ACSI brochure April 2009

Loan Size

A. Through group collateral

Minimum = 300 Birr for each member

Maximum = 5000 Birr for each member

B. Individual loan (through asset collateral)

Minimum = 5,001 Birr.

Maximum = 3 million Birr

Source: ACSI brochure April 2009

4.3. Presentation of Secondary data

Table 4.1: Loan distribution of the branch

Sex	Number of clients	Amount of Birr Distributed
Male	4714	25,243,875.76
Female	3953	22,643,222.50
Total	8664	47,921,098.26

Source: ACSI, Bahir Dar Branch Office (June, 2010)

4.4 Presentation of Primary data

Interview with the branch manager

Question No. One: who are the beneficiaries of ACSI in the branch?

ACSI credit delivery comprises various types of loan products. Such as group loan, micro bank individual and cooperative loan and asset loans delivered to economically active poor people who are engaged in income generating activities and those who are interested to engaged in such activities.

Among the above loan product, in the branch small scale and agricultural loan are provided through the use of group lending approach. The rest is overtaken by micro bank fund in the city. The sex composition of the group lender (Male/Female) is almost Proportional; 50% Women and 50% men.

Questions No 2: Does ACSI give special attention to women clients in the branch?

As one of the objectives of ACSI is alleviating poverty and stimulating the region's economic growth giving priority to women, we give special treatment for women in every aspects of our service. The branch manager was asked on the ways how special treatment given for women client, he stated that, ACSI Provides special treatment for women. For example let's say two groups are applying for loan. One of the groups is organized by women and the other group by men. In such a case we first provide the loan for the group which is organized by women. This is a simple example how we give priority for women to achieve our objective.

Question No 3. What are the loan products of ACS in the branch?

As I have side before ACSI has five types of loan product.

1. Small scale loan for economically productive poor as initial and working capital,
2. Agricultural (fertilizer, improved seed, pests, and chemicals) for farmers.
3. Asset loan for house construction, maintenance and furnishing and
4. Micro and small enterprise loan

Among these loan products, the first two loan services are provided by the microfinance branch office and the rest two are provided by the micro bank of ACSI.

Question No.4: What are your requirements to provide loan?

Concerning to the first two types of loan product, we use poverty assessment at the individual level in consulting with Kebele administrations of the city to recruit potential client. So as to get credit service from the institution the potential clients should fulfill the following criteria.

- They should be resident of the town and in respective kebele
- They should be economically poor but productive
- Their age should be within the range of 18-60
- They have to organized themselves in group of 5 and more individuals
- They should be free from the loan of any other institution
- They should accept the rules and regulations of the institution
- With all these criteria, priority will be given for women applicants

If the clients fulfill the above criteria, they will get the loan without asking for any form of collateral.

Question No 5: For what purposes does ACSI give loan for women clients in the branch?

ACSI in this branch provides loan for those who are poor but productive so that they can engage themselves in productive activity. Most of our clients engaged in micro and small enterprise sector. Hence, the clients took the loan for two purposes; to start new venture, or expand and to run their venture (working capital).

Question NO 6: Does ACSI provide the amount of money required by women?

The amount of loan or loan size for each client depends on the operational manual of the institution. According to the manual the loan size is progressive which depends on the repayment performance of the client. The loan ranges between 300 Birr and 5,000.Birr. Even if the clients need loan size beyond the maximum limit required, the institution does not provide them.

Interview with clients

Interview was made with 20 clients and the result is summarized as follows.

Question NO1: when did you start your business and in what types of business you are engaged?

Regarding the types of business they engaged and the age of their enterprise the client stated that they are engaged in different types of micro and small business activities. These are; animal fattening, mini-cafe and restaurant, preparation and sell of local alcohol and traditional food staff preparation (Baltena). The age of their enterprise is within the ranges of 5-10 years

Table 4.2: Types of Activities women clients engaged in

No	Activities	Clients engaged	
		In No.	In Percent
1.	Animal fattening	5	25%
2	Mini- cafe and restaurant	3	15%
3	Preparation and sell of local alcohol	4	20%
4	Baltena (traditional food staff preparation)	8	40%
	Total	20	100 %

Table 4.3: Age of clients business

Number of clients	Age of the venture
8	10
4	8
3	6
2	5
3	7
Average	7.2

Question No.2: Have you ever obtained fund from; Microfinance, Iqub, Idir, private money lender, savings and credit cooperative and other NGO?

Regarding of the source of funds, the clients stated that, they obtained funds from Iqub, microfinance, friends and relatives and trade credit

Question No 3: What were the sources of finance for the establishment of your enterprise?

Majority of clients interviewed 17/20 have stated that, ACSI loan, personal savings and Iqub were the major source of fund to start their venture. When they asked to put these sources in ranking order, they respond as, personal saving followed by Iqub and ACSI loan. The rest 3/20 stated that they did not get loan form ACSI to start their venture rather use their personal saving and Iqub as start up capital.

Question 4: what proportions of startup capital funds you got from Personal saving, Iqub, families and friend's loan and ACSI loan?

The source of startup capital and their contribution is summarized in the following table.

Table 4.4: source of startup capital

No	Sources	Proportion on average
1	Personal saving	55%
2	Iqub	20%
3	Families and Friends loan	15%
4	Microfinance(ACSI loan)	10%
	Total	100%

Question No.5: What are the sources of working capital for your enterprise?

Concerning the working capital the clients stated different sources. These are trade credit, ACSI loan, revenue of their venture and Iqub. Among these sources majority of them 13/20 stated that ACSI loan is the most preferable source of fund to run their enterprise.

Question No.6: What proportions of working capital you get from the above listed sources?

The proportions of the ACSI loan, revenue from their venture, trade credit and Iqub is summarized in the following table

Table 4.5: Sources of working capital and proportion of their contribution

No	Sources	Proportion on Average
1	Microfinance (ACSI loan)	35%
2	Revenue of their Venture	30%
3	Trade credit	20%
4	Iqub	15%
	Total	100%

Question No.7: Have you ever tried to get loan from Banks when you start your business and /or after you started your business?

According to the respondent all of them (20/20) responded that they never tried to get loan from the bank both for start up capital and working capital of their venture.

Question No 8: If not what are the reasons?

All the clients stated that they never tried to borrow money from banks. Because, we are economically very poor, as the result we can not fulfill the requirements of formal banks for credit service. In all the time formal Banks required fixed asset collateral, formal business license and business plan to provide credit service which are very difficult for us to have.

Question No. 9: Do you think that the rules and regulations of ACSI fit with your financial need?

All the clients stated that, there are some rules and regulations that should be modified and improved with in the context of the current situation. To shed light on this, the interviewees were asked to state rules and regulations which need modification and improvement. Accordingly they stated that Loan size, repayment schedule, credit due date, group lending approach, and number of individual to form group can be listed. In line with this, clients further point out how restrictiveness of the procedures. It is very difficult to get a minimum of five individuals who are trusted each other to form group for credit. So that, if possible ACSI should develop individual lending system, if not the number of individual in a group should be decreased from 5 to less individuals. The other point is repayment schedule, we are required to repay the loan on a monthly installment base and the due date of the loan is one year. Because of the inflexibility of repayment schedule and due date, some times we are forced to save the loan for repayment pursues rather than using for productive activities.

Question NO. 10: Is the loan size of ACSI in line with the financial requirements of your Enterprise?

All the clients interviewed stated that the loan size of ACSI is very small. Even if ACSI provides us loan on progressive bases, both the first round and the maximum limit is very small which is not in line with the financial needs of our venture. They further stated that the first round loan is from 300 to 1100 birr, the second round is between 1200-2500and the maximum limit is 5,000 birr which is very small to finance (run or expand) our venture in the current market situation and inflation rate.

Question No 11: For how money times you got loan from ACSI?

Regarding to the frequency of loan most of the clients 17/20 stated that they are regular lender of ACSI starting from the beginning of their venture until to date. The frequency of loan taken by the clients is summarized in the following table.

Table 4.6: Frequency of Loan

Number of clients	Frequency of the loan
8	10
4	8
3	6
2	5
3	5
Avrage	6.8

Chapter Five

5 Data Analysis

5.1 Introduction

This Chapter is devoted to the analysis of the data presented in the previous chapter. The Chapter starts with brief presentation of the profile of clients and then discusses sources of finance for starting business and working capital. At the end conclusions and recommendations are drawn based on the discussions.

5.2 Profiles of Clients of ACSI

Microfinance has evolved as an economic development approach intended to benefit low income women and men. It referees to the provision of financial service to low income groups including self-employed individuals. It mainly focuses on financing micro and small business enterprises (Kavint, 2007). In line with this, ACSI was established to fill the gab of formal banking in meeting the needs of small scale borrowers who are engaged in self-employed income generating activities. Since its establishment, ACSI has been providing financial services in the Amhara Region.

Most microfinance institutions provide financial services to the poorest of the poor, within which women are the primary target as they constitute the largest group that is most denied of having access to financial services in many developing countries (Torre and Vento, 2006). In order to understand how far ACSI adheres to this principle, data was sought from the Bahir Dar Branch Office of ACSI. According to the Branch Manager, the, the profile of clients in terms of gender composition is almost proportional, i.e. 50 percent men and 50 percent women. He also noted that serving the marginalized groups in general and women in particular is the major objective of ACSI and hence, gives priority to women than to men clients.

Data from the Branch's Report of July 7, 2010 however, does not show that women are not equally benefiting from the loan services of the Branch let alone to benefit more. According to

the report, from a total of total of 8664 clients, 3953 (45.62 %) are women clients while men constitute the larger share, i.e. 4714 (54.38%) of the clients. The loan size shows almost similar picture. From a total amount of Birr 47,921,098.26 loan distributed to clients, the share of women represents only 47.25% while men's share represents 52.75%.

From the above profile of clients of ACSI, it is evident that even if ACSI claims that it gives priority to women, in practice, the majority of the clients are men and so does is the loan size distributed to clients. This is against the historical marginalization of women and the current population of the City of Bahir Dar. The National Census of 2007 for Bahir Dar shows that female accounts 51.2 percent of the population (CSA, 2007). Unfortunately, the majority of them live in poverty that desperately look for access to credit services so that they could be engaged in micro and small business activities, which generate income to sustain their lives.

As shown in Table 4.1, an assessment of the type of business that interviewed clients have been engaged in shows that 40% are engaged in preparation of traditional food stuffs, 25% in animal fattening, 20% in preparation and sell of local alcohol, and the rest 15% in min-café and restaurant.

5.3 Sources and Purposes of Credits

The poor usually try to mobilize financial resources from different sources for different purposes. The purpose of credit is usually to start a business and finance the working capital while the availability alternative sources of credit greatly vary from individual to individual deepening on the nature of social capital and individual's capacity to networking and as well as the existence of pro-poor micro finance institutions. In light of this, the sections below try to discuss the sources of credit to start business and finance working capitals of the respondents.

5.3.1 Sources of startup capital

Starting a new business is a very difficult task and finance has been identified by several studies as one of the primary factors that hinder many potential entrepreneurs realigning their dreams of being engaged in micro and small business activities (Haftu, et al., 2009).

Respondents, who are clients of ACSI, were asked about their sources of finance to start their businesses. Accordingly, the majority (85%) of the respondents indicated that they tried to mobilize start up capital from different sources that include personal saving, Iqub, loan from families and friends, and credit from ACSI. Respondents were also asked to indicate the contribution of each source to the total start up capital. As shown in Table 4.2, the average contribution of personal saving is 55%, Iqub 20%, loan from family and friends 15%, and lastly credit from ACSI accounts 10 % of the start up capital. This shows that most of the clients greatly rely on personal savings, Iqub, and loan from families and friends respectively. The percentage contribution of credit from ACSI is on the lowest side; only 10 percent. In fact, 15% of the clients have disclosed that they did not take credit from ACSI to start their business.

According to the Branch Manager, ACSI provides credit to women, which contributes a great share of the fund required to start their business. The empirical data obtained from the clients however defies the claims of the Manager; ACSI contributed only 10 % of the fund women needed to start their businesses. This indicates that, unless and otherwise women have reasonable amount of personal saving and as well as good social capital (Iqub and loan from families and friends), it is difficult for them to secure enough loan from ACSI. This contradicts not only with the view points of the Branch's Manager, but also with established literatures, which hold the position that MFIs are promising sources of finance to start micro and small business activities (Yared and Seneshaw,2008). Against the finding, literatures promote the idea that that MFIs are meant to address the lower strata of the society who are engaged in micro and small enterprise sector specially women by providing loan to start or run and expand their small venture (Haftu,et,al,2009).

In order to assess the degree of accessibility of formal financial institutions to the poor women, respondents were asked whether they have tried to get loan from the formal bank when they started their businesses. All of the respondents replied that they have never ever tried to access the formal bank seeking credit services since they know that they have no collateral required by the banks. Actually, the formal banks in Ethiopia (private or public) are not interested in financing micro and small enterprises. This is because the micro and small enterprises are constrained by high risks and transactions costs (real or perceived) associated with commercial lending to the sector (Wolday, 2002). It is known from the literature that the formal banking sector in Ethiopia is highly inaccessible to the poor due to collateral (asset), formal business

license and business plan requirements, which the poor in general and women in particular hardly meets the requirements. Micro and small business operators in general and especially women lack asset for collateral and do have low technical capacity to fulfill the business plan requirements. Thus, micro and small business operators are excluded from the loan targets of the formal banking sector.

5.3.2 Sources of funds for working capital

Once micro and small business operators have started operation, the dominant financing needs will be working capital required to finance the day-to-day activities of the business so that it generates profit towards future growth. According to respondents, the major source of finance for working capital include revenue from own operations, loan from ACSI, trade credit (purchase of goods on credit), and Iqub. In terms of the share these sources in financing working capital, Table 4.3 shows that ACSI's contributions is greater than others (35%) followed by revenue from own operations (30%), purchase of goods on credit 20%, lastly Iqub contributes 15% of the total working capital needs of their businesses. This shows that despite ACSI's contribution is greater than other sources, clients do not yet secure sufficient finance from ACSI not only to start business but also to finance their working capital needs. Hence, women are looking for other sources to run their businesses. The finding generally coincides with the literature that MFIs tend to provide more credit to finance working capital than to start up capital. However, it has to be noted that ACSI's contribution in this regard is greater not mainly due to the fact that it provides grater amount of loan for working capital than start up capital, but due to the fact that women engaged in micro and small businesses need smaller amount of working capital than start up capital.

5.4 Loan procedure and regulations of ACSI

Micro finance institutions adopt different procedures and regulations to govern the loan procedures to clients. No matter how they may introduce different procedures and regulations, they have to design in such a way that best meets the demands of the target groups (Leadgerwood, 1999). ACSI has also developed operational manual that guides credit officers and clients in processing credit transactions.

Procedures of loan delivery

According to the Branch Manager, loans are provided to clients based on strict adherence to the operational manual of ACSI. Whatever situations may call up on need for modification and flexibility, there is no any consideration to do so at the branch level. According to the operational manual of ACSI, clients are required to fulfill many criteria so as to get loan, which include that clients should be economically poor but active; they should be residence of the respective kebele covered by the Branch; should have residence identification card, they have to organize themselves in group consisting of five and above individuals; and they should accept the rules and regulations of the Institution regarding to loan repayment schedule (payment date, amount of installment etc).

On the basis of these predetermined criteria, the Institution identifies and recruits potential clients in collaboration with the kebele administration. Clients were asked about the appropriateness of the requirements of the Institution in relation to their loan demand. Almost all of the clients stated that the criteria have made the recruitment procedures too long and subjective. Moreover, clients added, the procedures are rigid that do not allow certain degree of flexibility presents challenge for both current and potential clients to have easy access to the Institution's credit service.

As stated above, ACSI is using group lending approach, which clients find it very much difficult to form a group of five individuals who trust each other. This shows that even if women fulfill all the criteria required by the Institution, they will never get loan service unless and otherwise they form a group. The problem of group lending is not limited only to group formation, but also extends to the repayment of the loan. Members of a group are collectively and individually liable for repayment of the entire loan provided to all members of group when one or more the group members fail to pay the repayment of the loan. Clients stated that had it been possible, they would rather prefer to take individual loan so that members do not suffer from paying the repayment of defaulters. Moreover, clients added, group lending is constraining their access to another round of loan since they do not get if one of them has not paid the repayment fully. This clearly indicates how difficult it is to have access to credit from ACSI. Moreover, clients have indicated that delay in release of credit is another problem that hampers their business activities.

Of course, it is clearly stated in the literature that group guarantees are either implicit guarantees by deterring access to loan for group members when all of them are not paying their loan repayment, or actual guarantees by making all group members liable when one or more of the group members default their loans (Leadgwood, 1999).

The clients further stated that not only the principle of group lending but also the size of the group members is another problem. According to clients, the number of group members is too large for them to find individuals who trust each other. They have never been consulted about this problem. This shows that ACSI has developed the operational manuals and other regulations to provide credit services without considering the needs and constraints of the target group, which is against the principle of micro finance institutions that is stated as micro finance institutions should design procedures and provide credit services based on market analysis to meet the needs and preference of the clients (Wolday, 2002).

In terms of loan repayment schedule, ACSI follows a monthly installment repayment approach, i.e. clients are required to pay on monthly basis. Every single loan of ACSI for micro and small business activities extends only for one year. Hence, clients are expected to repay the loan in 12 months to get another round of loan. According to clients, they have no idea or influence on the amount of installment and the manner (monthly) of payment. Clients are required to repay the loan on predetermined date without considering the financial position of the client while their activities and capacity to generate profit are very much depending on other external factors such as market condition, economic condition and the like. Moreover, clients added, maturity date of the loan is too short; one year, which sometimes forced clients to pay the loan itself, but unfortunately with interest. Due to rigid maturity and repayment period of the loan, the loan is not used for productive activities. This is against the most important principles of micro loan repayments that Ledgerwood (1999) stated as loan repayments can be made on an installment basis (weekly, biweekly, monthly) or in a lump sum at the end of the loan term, depending on the cash patterns of the borrowers.

Loan Size

Loan size is an important factor for effective micro finance services that would promote engagement in productive economic activities. According to the operational manual, ACSI provides progressive loan size depends on the loan repayment performance of the clients (first cycle, second cycle, third cycle, and forth cycle) of clients. Loan size is hence dependent on

performance of repayment and loan frequency. Accordingly, the loan size of first cycle borrowers ranges between Birr 300 and Birr 1,100 per member of a group whereas the loan size of second cycle borrowers ranges between birr 1,200 to Birr 2,500 per member. Third cycle borrowers can borrow a loan that ranges between Birr 2,600 and Birr 3,500 per member. The largest loan size goes to the group that borrows for the forth time; which ranges between Birr 3,600 and Birr 5,000.

According to interviewed clients, the loan size of ACSI is very small to undertake meaningful economic activities. They explained that in today's market condition, it is hardly possible to undertake an economic activity with the loan size ACSI is providing. With this loan, they stated, it is possible only to vender chewing gums on the street that hardly generates profit to feed oneself. This shows that the loan size of ACSI is not helping clients to build asset and run their business in profitable manner as it provides them small amount of money. Whereas, in the literature it is clearly stated that MFIs have to design a loan product (loan size) that meets borrowers' needs. Loan should be based on the cash patterns of borrowers (cash inflow and cash out flow) and designed as much as possible to enable client to repay the loan without undue hardship. This helps not only clients but also the MFIs to avoid potential defaulters and encourages clients both to manage their funds prudently and to build up asset (Ladgerwood, 1999).

Chapter Six

6 Conclusions and Recommendations

6.1 Summery and Conclusion

- From the total clients of the branch, proportions of men and women are 54.38% and 45.62% respectively. More over from the total loan distributed the share of men and women are 52.57% and 47.25% respectively. From this it is possible to conclude that major beneficiaries of ACSI in the case branch are men rather than women.
- Women clients use different sources of funds of start up capital. Personal saving, Iqub, ACSI loan and families and friends loan are the major one. However the contributions of ACSI loan s very small than the other sources. It only covers 10 % of a start up capital. From this it is safe to conclude that the role ACSI is insignificant in addressing start up capital needs of women clients.
- ACSI loan, revenue from their venture, trade credit, and Iqub are the major sources of working capitals of women clients. Among these, ACSI loan is the better sources of working capital of women clients than the other .It cover 35% of working capital needed by the clients. So that it is possible to conclude that, ACSI is better in addressing working capital needs of women clients.
- The rules and regulation of ACSI is not in line with financial needs of women clients. The loan size is very small; between is 300-5000. The due date of the loan is very short it is one year. Frequency of installment period is too much; clients are required to pay the loan on monthly base. Number of individuals with in a group is too much; Clients are required to form a group consisting at least five individuals.

6.2 *Recommendations*

- In addition to working with Kebele administration, ACSI needs to work with other community organization like Idder, associations and the like to recruit potential clients in order to increase women beneficiaries.
- ACSI needs to modify its loan size based on market analysis so as to addressing financial needs of women clients in the current situation.
- Even if group lending approach is there the number of individuals in the group should decrease from five to two or three individuals.
- Installment period, due date and payment date should be set in consultation with the clients

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Annexes

ADDIS ABABA UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
MBA PROGRAM

The Role of ACSI in Addressing Financial needs of Women clients engaged
in Micro and Small Enterprises. The Case of Bahir Dar Branch

A. *Interview questions for women clients of Amhara Credit and Saving Institution engaged in Micro and Small Enterprises.*

The purpose of this interview questions is to know to what extent that ACSI address financial needs of women clients engaged in micro and small enterprises. This study is undertaken for academic purpose only. There for, I request you to answer the questions undoubtedly and honestly.

1. When did you start your business and in what types of business are you are engaged?
2. Have you ever obtained fund from; Microfinance, Iqub, Iddir, private money lender, Savings and credit cooperative and other NGO?
3. What were the sources of finance for the establishment of your enterprise?
4. What proportions of start up capital funds did you get from Personal saving, Iqub, Families and friend's loan others sources and ACSI loan?
5. What are the sources of working capital for your enterprise?
6. What proportions of working capital did you get from the above listed sources?
7. Have you ever tried to get loan from Banks when you start your business and /or after you started your business?
8. If not what are the reasons?
9. Do you think that the rules and regulations of ACSI fit with your financial need?
10. Is the loan size of ACSI in line with the financial requirements of your Enterprise?
11. For how money times did you get loan from ACSI?

B. *Interview questions for the Branch manager of Amhara Credit and Saving Institution in Bahir Dar Branch.*

The purpose of this interview questions is to know to what extent that ACSI address financial needs of women clients engaged in micro and small enterprises. This study is undertaken for academic purpose only. There for, I request you to answer the questions undoubtedly and honestly.

1. Who are the beneficiaries of ACSI in the branch?
2. Does ACSI give special attention to women clients in the branch?
3. What are the loan products of ACS in the branch?
4. What are your requirements to provide loan?
5. For what purposes does ACSI give loan for women clients in the branch?
6. Does ACSI provide the amount of money required by women?

C. The performance of ASCI: A comparative analysis (in US dollars)

	Unadjusted	Adjusted		
International characteristics	ACSI	ACSI	Ethiopia	Africa
Number of MFIs			15	57
Age in years	9	9	6	7
Total assets	52,879,121	52,889,537	1,650,463	5,414,823
Offices in ACSI vs in average MFI	184	184	6	12
Personnel in ACSI vs in average MFI	1,670	1,670	74	126
Finance structure				
Capital/asset ratio	33.50%	33.50%	47.20%	33.50%
Commercial funding liabilities ratio	35.60%	36.10%	40.40%	54.60%
Debt/equity ratio	2	2	1.1	2
Deposits to loans	35.30%	35.80%	13.60%	11.60%
Deposits to total assets	24.20%	24.10%	8.80%	8.80%
Gross loan portfolio/total assets	68.40%	67.50%	67.90%	69.00%
Outreach indicators				
Number of active borrowers	351,163	3,531,163	9,891	15,542
Percent of women borrowers	30.40%	30.40%	40.07%	60.00%
Gross loan portfolio	36,164,593	35,714,997	1,074,044	3,855,794
	103	102	101	172
average loan balance per borrower/GNI per capita	93.60%	92.55	100.90%	85.50%
Number of voluntary savers	134,013	134,013	5,577	4,916
Number of voluntary savings	12,769,515	12,769,515	122,207	115,178
Average saving balance per saver	95	95	85	98
Overall financial performance	ACSI	ACSI	Ethiopia	Africa
Return to asset	7.70%	4	-3.3	-1.10%
Return to equity	19.80%	10.80%	-6.40%	-3.9
Operational self sufficiency	231.80%	231.80%	110.30%	111.10%
Financial self-sufficiency	N/A	142.05	80.60%	98.10%
Revenues				
Financial revenue ratio	13.50%	13.50%	13.80%	21.90%
Profit margin	56.90%	29.60%	-24.10%	-1.90%
Yield on gross portfolio(nominal)	19.10%	19.20%	20.70%	30.60%
Yield on gross portfolio(real)	8.60%	8.80%	10.70%	24.90%
Expense				
Total expense ratio	5.80%	9.50%	17.10%	21.40%
Financial expense ratio	1.80%	5.40%	5.50%	5.10%
Loan loss provision expense ratio	-0.30%	-0.30%	1.00%	1.40%
Operating expense ratio	4.30%	4.30%	10.8	13.60%
Personal expense ratio	2.90%	2.90%	5.90%	7.20%
Administrative expense ratio	1.40%	1.40%	4.10%	7.50%
Adjusted expense ratio	NA	3.70%	5.00%	1.80%

Efficiency				
Operational expense/loan portfolio	6.20%	6.20%	16.40%	27.60%
Personal expense/loan portfolio	4.20%	4.20%	8.60%	12.90%
Average salary/GNI per capita	7	7	12	15
Cost per borrower	6	6	13	68
Cost per loan	6	6	13	75
Productivity				
Borrower per staff member	210	210	160	153
Loan per staff member	210	210	160	142
Borrower per loan officer	335	335	328	274
Loan per loan officer	335	335	328	291
Voluntary savers per staff member	80	80	43	69
Savings account per staff member	80	80	43	34
Personnel allocation ratio	62.80%	62.80%	46.40%	50.80%
Risk and liquidity				
Portfolio at risk>30 days	2.50%	2.50%	3.50%	3.40%
Portfolio at risk>90 days	0.40%	0.40%	1.20%	1.20%
Write-off ratio	0.00%	1.50%	3.90%	1.50%
Loan loss rate	0.00%	1.50%	3.90%	1.40%
Risk coverage	303.10%	58.50%	34.80%	65.40%
Non-earning liquid assets as % total asset	18.60%	18.60%	25.00%	12.80%

Source Association of Ethiopian Microfinance Institution (2006) Addis Ababa