OUTREACH SERVICES AND SUSTAINABILITY: THE CASE OF AMHARA CREDIT AND SAVING INSTITUTION

BY:

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COLLEGE OF MANAGEMENT, INFORMATICS AND ECONOMIC SCIENCE

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A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF ADDIS ABABA UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION (MBA)

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Declaration

This thesis is my original work and has not been presented for a degree in any other university, and that all sources of materials used for the thesis have been duly acknowledged.

Declared by:

Name: _________________________________

Signature: _______________

Date: ___________________

This thesis has been submitted for examination with my approval as a university advisor.

Name: ___________________________

Signature: _______________

Date: ____________________

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Acronyms

ACSI: Amhara Credit and Saving Institution

ADA: Amhara Development Association

AWA: Amhara Women's Association

BoFED: Bureau of Finance and Economic Development

CASHPOR: Credit and Savings for the Hard-Core Poor

CBE: Commercial Bank of Ethiopia

IFAD: International Fund for Agricultural Development

MFIs: Micro Finance Institutions

NBE: National Bank of Ethiopia

NGO: Non-Governmental Organization

ORDA: Organization for the Rehabilitation and Development in Amhara

PWR: Participatory Wealth Ranking

ROA: Return on Asset

ROE: Return on Equity

SIDA: Swedish International Development Cooperation Agency

USAID: The United States of Agency for International Development

Abstract

Now a day's microfinance is a useful means of intervention for development strategy for Ethiopia, to reduce poverty by reaching people who are unable to offer collateral for formal banking loans. In addition, at present, institutional sustainability is becoming the guiding principle for microfinance institutions. The issues of reaching the poorest of the poor and ensuring sustainability are among areas of ongoing debate in the microfinance sector. This study, therefore, was conducted to evaluate the overall outreach and sustainability performance of the Amhara Credit and Saving Institution using Debre Berhan Main Branch as a case study. In addition assessing whether outreach and sustainability achieved together, assess the socio-economic conditions of the customers of the institution and assess the clients attitude on the services of the institution were among the objectives.

Data was obtained from two sub-branches of the institution. In order to collect the data 180 clients and the general manager, loan officers and field workers are selected as sample respondents. Both simple random sampling and convenient sampling methods were employed for questionnaire respondents and interviewee selection. To analyze both qualitative and quantitative analysis were used. Ratio analysis, trend analysis, SPSS and Ms-Excel computer programs in relation with tables and charts were important.

The main thought the researcher used was the institutionalist approach that centered both achieving financial self-sufficiency and the number of clients served (breadth of outreach) as a main point.

The result indicates that the institution has made its own positive contribution to the clients in relation to increase in wealth condition and gave priority to the rural poor women. Moreover, as the researcher expected, the output of the study also identified that there is no evidence of trade-off between outreach and sustainability, rather positive relationship was observed. Therefore, it institutional sustainability could be accomplished while reaching to the poorest sections of the society, that means both outreach and sustainability were achieved simultaneously.

CHAPTER ONE

1.1. Introduction/Background

Microfinance programs and institutions are a recent growing development phenomenon in developing countries. It plays an important role in providing access to financial services to rural farmers and people engaged in other similar activities as well as micro and small-scale rural and urban entrepreneurs *(Micro Financing Business Proclamation no 62, 2009)*. Now a day's microfinance is a useful means of intervention for development strategy for Ethiopia, to reduce poverty by providing a credit access to those people who are unable to offer collateral for formal banking loans. Microfinance institutions are one way to shift from aid dependency to self-reliance.

Making financial service available to poor people as a loan is recognized as an important part of poverty reduction strategies. Outreaching poor client requires innovative operating methods to manage risk and reduce transaction costs because poor people have no physical assets to offer as collateral for loans.

At present institutional sustainability is becoming the guiding principle for microfinance institutions. A few MFIs are becoming sustainable with a record of good profit returns. However, there are positions that such sustainability is achieved at the exclusion of the poor people *(Letenah Ejigu, 2009)*

These two imperative issues (outreach and sustainability) create a debate in the microfinance sector. It is obvious that reaching the poor is so costly and risky; this makes the institutions to focus on the non-poor societies to reduce their costs and risks *(Lafourcade et al, 2005)*. On the other hand, the limited supply of service by microfinance institutions because of little supply of fund from donors' (donors' demand on MFIs to have good repayment rate to offer further funding support) and the methodologies of some MFIs do not fit with the interest of the very poor (they lack best way of selection of customers) makes the MFIs to focus on mobilizing saving as a major source of loan fund that highly needs to ensure sustainability to win the trust of depositors. Therefore, the issues of reaching the poorest of the poor and ensuring sustainability are among areas of ongoing debate in the microfinance sector. Still it is a great challenge to build MFIs that reach the poor and simultaneously achieve sustainability, but both are the twin targets of microfinance to reduce poverty for the poor people (*Letenah Ejigu, 2009*).

This study mainly focused on the above issues. The study assessed the two most important empirical issues of MFIs, outreach and sustainability, by taking the experience of the Amhara Credit and Savings Institution (ACSI) as evidence. In addition, it assessed the client attitude towards the services of the institution, and observed their socio-economic conditions of the clients. This study will contribute its part to fill the gap between the theory and actual practice in microfinance sector, and also the study will be essential for further researchers as a base ground.

ACSI is the largest microfinance institution in Ethiopia. Its primary mission is to improve the economic situation of low-income, productive poor people in the Amhara region through increased access to lending and saving services. ACSI was initiated in 1995 by the Organization for the Rehabilitation and Development in Amhara (ORDA), an indigenous Non Governmental Organization (NGO) engaged in development activities in the Amhara region. ACSI undertook its pilot activities in 1996, and was licensed as a microfinance company in April 1997. The institution has 10 main branches, 198 sub-branches and over 2,700 employees. It focuses on financial services support for small farmers and makes predominantly agricultural loans using the group lending methodology. It fully considers rural values, economic and social settings, and settlement and gender issues. ACSI currently delivers micro-finance activities including credits (group loans, micro-bank, individual loans, and asset loans), savings (compulsory and voluntary savings), micro insurance (Life insurance services delivered to group loan clients), money transfer (local), and fund management, like pension fund *(ACSI, 2009).*

1.2. Statement of the Problem

Several microfinance institutions were established and have been operating towards resolving the credit access problem of the poor people who are not included in the formal banking sectors because of collateral requirements. There are studies that show that microfinance does not reach the poorest of the poor, rather they are reaching the non-poor group of people. Besides most MFIs have no clear rules and criterion to target the poorest of the poor. This indicates that the MFIs are drifting away from their original mission of reaching and serving the poor *(Letenah Ejigu, 2009)*

In Ethiopia, MFIs are considered to be useful development strategies to reduce poverty having the objective to provide finance to the 'poorest of the poor' people in the rural as well as urban areas of the country. It is obvious that providing microfinance to the poor clients is costly and risky. It requires innovative operating methods to manage risk and reduce transaction costs *(Mathison, 2001).*

These problems make the MFIs not to reach the poorest of the poor society especially living in more remote areas.

Institutional sustainability is becoming the leading principle for microfinance service providers. Even if it is a core for the going concern or survival of the industry, in many developing countries especially in Africa most of the MFIs are subsidy dependents. Historically microfinance has started operation with donor funds. There is an intense debate on whether MFIs should continue to be donor supported or get relived from donation and stand on their own leg *(Letenah Ejigu, 2009)*. In addition, the limited supply of donor funds make MFIs to focus on mobilizing saving as a best source of loan fund that leads highly need to make guarantee the sustainability to win trust of the depositors.

The main idea that motivated the researcher to pursue this study is the issue of both reaching the poor and ensuring sustainability are unanswered debate in microfinance areas. So, the competition is looking over the two schemes and a matter of trade-offs between the two. Currently, both outreach and sustainability are the mirror image targets of microfinance for poverty alleviation *(Lafourcade et al, 2005)*. It is a great challenge to build MFIs that reach the poorest of the poor and at the same time achieve institutional sustainability with operational and/or financial self-sufficiency. In addition, the researcher couldn't find detailed and recent research studies in Ethiopia regarding both outreach and sustainability of MFIs. These gaps initiate the researcher to involve in this problem area for study.

In relation with the two schemes, the researcher intends to look the performance of ACSI in terms of credit and saving delivery, productivity and efficiency, profitability, portfolio quality, socio-economic conditions of the clients and their feedback on the services provision which are indictors of outreach and sustainability.

Objectives of the Study

The purpose of this study would be to evaluate the overall outreach and sustainability performance of ACSI using Debre Berhan Main Branch as a study area. In relation with the above general purpose of the study, the researcher identified the following specific objectives:

- To evaluate the outreach performance of ACSI.
- To determine the financial sustainability of the institution.
- To figure out the operational sustainability of the institution.
- To assess the clients attitude on the services of ACSI.

- To assess the socio-economic conditions of the customers of the institution.
- To assess whether outreach and sustainability achieved together.
- To indicate some important recommendations for ACSI.

In order to realize the above objectives and evaluate whether ACSI is able to achieve both outreach and ensuring sustainability as the best interest of the customers, the following research hypothesis's were employed.

1.3. Hypothesis

H1: Operational and financial self-sufficiency are positively related with sustainability.

H2: Customer selection methods have direct relationship with outreach of the institution.

H3: Profitability and securing sustainability can be related positively.

H4: Outreach and sustainability can be achieved simultaneously.

1.4. Significance of the study

The study initially will help to fill the gap between the theory and the ongoing practice in the microfinance area regarding outreach and sustainability. In addition the study will provide essential information for the institution such as financial and operational self-sufficiency, outreach depth and breadth, profitability, portfolio quality, and customers' feedback about the service. This will help the institution to evaluate itself and take adjustments for future improvement. And also, this study will give some important information for customers about the institution which helps them to know where the position of the institution is, that will create psychological confidence about the institution.

On the other hand, the study will be useful for collecting and documenting valuable data for further researchers who will have an interest on this study area.

1.5. Scope and Limitations of the study

This study emphasized on the assessment of outreach and sustainability of the Amhara Credit and Saving Institution. Thus, the other issues like impact assessments would not be covered in this study. It binds all relevant data within the institution which have influence on the outreach and sustainability of the institution. Due to physical and capacity constraints the study concentrated on Debre Berhan Main Branch taking samples of sub branches and included both rural and urban residents for the data collection. In addition, non-customers and drop-out customers of the institution were not included as a respondent for this study.

For this study the researcher encountered the following limitations:

- Shortage of time and finance to finish the study.
- Some respondents were not willing to provide the necessary information as the time of responding to interviews and questionnaires.
- Lack of literature review regarding the topic in Ethiopian context.
- Inability to get updated data.

1.6. *Methodology*

1.6.1. *Types of Research Design*

The study is case study in the form of cross sectional design in which data were collected using questionnaires and interview. The methodology used by the researcher was descriptive approach for both qualitative and quantitative data. The researcher used samples of the Amhara Credit and Saving Institution sub-branches operating under Debre Berhan Main Branch.

1.6.2. *Methods of Data Collection*

The study was conducted in Debre Brehan Main Branch of ACSI located 130 km away from Addis Ababa to the northern part of Ethiopia. This study has employed both primary and secondary data collection methods.

In order to collect the primary data the researcher used questionnaires and interview. Questionnaires were designed to collect information from the customers of the institution by taking sample customers of the sub-branches offices. The main aim of the questionnaire is to obtain feedback from customers regarding their wealth condition, the institutions service delivery and credit outreach performance. It contained both close-ended and open-ended questions that indicate outreach and sustainability performance of microfinance institutions. In order to make the questionnaires more convenient to respondents it was translated in to Amharic language.

Interview questions were designed to ascertain the management view on the outreach and sustainability of the institution. It was designed for general managers, credit officers and field workers of the institution at the main branch and sub-branch level. The interview helped the researcher to obtain information on the financial and operational sustainability, service outreach and customers assessment methods of the institution.

5 years (2005-2009) audited annual financial reports, independent auditors' report and financial statements of the institution were used for this study as core secondary data sources. In addition, other reports of the branch or/and sub-branch offices, manuals, pamphlets (flayers), information from the National Bank of Ethiopia (NBE), Federal "*Negarit Gazeta*" (proclamation), magazines prepared by the institution, newspapers, journals, books and websites were used as per the requirement of the study.

1.6.3. Method of Sampling and Sample Size Determination

For this study the researcher used simple random sampling and convenient sampling techniques to collect the required data from different sources.

Currently, ACSI has 10 main branches distributed over the whole Amhara Region. These are Awi Main Branch, Debre Brehan Main Branch, East Gojjam Main Branch, West Gojjam Main Branch, North Gondar Main Branch, South Gondar Main Branch, North Wello Main Branch, South Wello Main Branch, Wagemera Main Branch, and Kamissa Main Branch *(ACSI, 2009).* A total of 198 sub-branches are operating under those main branch offices. From 10 main branch offices the researcher has chosen Debre Berhan Main Branch for the study in convenient sampling technique. Currently, there are 27 sub-branches operating under Debre Brehan Main Branch, out of these sub-branches the researcher selected "*DENEBA SUB-BRANCH"* (42 km far from Debre Brehan city) and "*DEBRE BREHAN CITY SUB-BRANCH"* as a sample. The selection considers the access to transportation to the area, cost and time constraints. "In designing a sample for a study, the researcher will chooses the size of effect that he/she consider important and representative" *(Abiy, Alemayehu, Daniel, Melese and Yilma, 2009)*. So, the researcher believed that these samples are representative for this study.

Under Debre Brehan Main Branch of Amhara Credit and Saving Institution there are more than 65,000 active customers using the services provided; in all 27 sub-branches. From the total customers available 3405 customers were both in DENEBA and DEBRE BREHAN CITY sub-branches. For the determination of sample size, there is no defined rule that can be followed *(Kothari, 2004)*. Out of the total population 5% was taken as a sample in which is believed that it representative and reliable for this study. Therefore, the sample size is 3405×5% = 180 customers (i.e. 90 customers from each sub-branch) which were selected in simple random sampling method. The main reason for the researcher to decide on this sample size are; there is a greater homogeneity in the clients of the institution, time and financial constraints, and the researcher believed that having more sample than this would not have much importance for the finding of the study.

Accordingly, a total number of 7 general managers, credit officers and field workers were selected as a respondent for the study.

1.6.4. *Data Analysis and Presentation*

The researcher used both quantitative and qualitative data analysis methods. For the non-numerical data the researcher used descriptive method of data analysis. For the numerical data mean, mode and median were used. That means ratio analysis, trend analysis and descriptive presentations on responses of clients and officers are included. In addition, different analytical formulas and measuring variables which help the researcher to evaluate the outreach and sustainability of the institution were employed. These include credit and saving outreach variables, operational and financial self-sufficiency, productivity and efficiency measures, profitability measures (such as: return on assets, return on equity, operating expanse to total expense ratio), capital structure indicators (like: debt to equity ratio, equity to asset ratio), portfolio quality indicators (such as: repayment rate, loan loss ratio) calculations.
After these the researcher used SPSS computer program and MS-EXCEL office application to organize, summarize and analyze the data. These would reduce the possibility of creating errors and increase the validity of the information. In addition, charts, diagrams and tables in relation to percentage analysis were used as a supportive for the analysis.

1.7. Organization of the study

The study was organized in five chapters. The first chapter presented the introduction, statement of the problem, objectives, hypothesis, significance, scope and limitations, and methodology parts of the study. In the second chapter the paper covered review of related literatures that are relevant to the study. The profile of ACSI was presented in the third chapter. Chapter four contained the analysis and presentation of the obtained data. Lastly, the conclusion and recommendation part of the study were presented in the fifth chapter of the paper.

1.8. *Definition of terms*

Collateral: is an asset pledged by a borrower to secure a loan.

Clients/Customers: are individual or groups who use the product or services of a company.

Efficiency: refers to achieving the intended objective at the least resource use possible.

Loan Portfolio: refers to the loans that have been made or bought and are being held for repayment.

Microfinance institution: are financial institutions that are involved in providing access to financial services to rural farmers and people engaged in other similar activities as well as micro and small-scale rural and urban entrepreneurs.

Operational sustainability: is the ability of the firm to cover operational costs from revenue earned from major lines of business.

Outreach: refers to the financial service provision (reaching) to the large portion of the society who is poor and living in remote areas.

Poor: are people who are lacking financial or other means of subsistence.

Poverty: Condition where people's basic needs for food, clothing, and shelter are not or little being met.

Productivity: the conversion of input into output using a given resource.

Self-sufficiency: is able to provide for oneself without the help of others or independent.

Socio-economic Condition: refers to the age, sex, occupation, marital status, educational level, income level and wealth conditions of the customers of a certain company.

Sustainability: the continuous service provision to clients profitably as a going concern without relying on subsidies.

CHAPTER TWO

Literature Review

2.8. Overview of Microfinance Institutions

Poverty is the major problem in most developing countries. In these countries economy, among others, absence of access to credit is presumed to be the cause for the failure of the poor to come out of poverty. Meeting the gap between demand and supply of credit in the formal financial institutions frontier has been challenging (*Von Pischke, 1999)*. In fact, the gap is not aroused merely because of shortage of loan-able fund to the poor rather it arises because it is costly for the formal financial institutions to lend to the poor. Lending to the poor involves high transaction cost and risks associated with information asymmetries and moral hazards.

Only a small fraction of the world population has access to financial instruments, essentially because commercial banks consider the poor people as unbankable due to their lack of collateral and information asymmetries (*Letenah Ejigu 2009***)**. Most formal financial institutions do not serve the poor because of perceived high risks, high costs involved in small transactions, low relative profitability, and inability of the poor to provide the physical collateral required by such institutions. The business culture of these institutions is also not geared to serve poor and low-income households. Lacking access to institutional sources of finance, most poor and low-income households continue to rely on insufficient self-finance or informal sources of finance. However, these sources limit their ability to actively participate in and benefit from the development process. Thus, a segment of the poor population that has viable investment opportunities persists in poverty for lack of access to credit at reasonable costs. The poor also lack access to institutional credit for consumption smoothening and to other services such as payments, money transfers, and insurance (*ADB, 2000)*. Nevertheless, in several developing countries governments have intervened, through introduction of microfinance institutions to minimize the gap, and then allow the poor access credits.

There is recent global agreement that microfinance institutions are good instruments to fill the gap of conventional banks' limitations in reaching the poor and the vulnerable non-poor with banking services. They are considered as one of the most effective interventions for empowering the poor in their economic and social involvements. That is, through these MFIs, the poor are able to access financial services, which previously were exclusively available to the upper income population. The basic idea behind such intervention is that access to microfinance services such as credit, savings, and micro-insurance to the poor could help them, among others, to expand their businesses that will allow them to pull out of poverty *(Mekonnen, 2008).*

Formal micro-finance in Ethiopia, though a recent phenomenon, has encouraging acceptance both by the government and the developmental NGOs working towards poverty alleviation objectives in the country. The regulatory framework for micro-finance institutions permits encouraging options for the MFIs to operate and expand their services in both rural and urban areas of the country. As one of the positive aspects, the regulatory framework allows licensed MFIs to accept deposits from the public and be able to finance a significant portion of their lending businesses. Microfinance has been considered as one of the best entry points for bringing sustainable development. It is one of the most prominent instruments of most government's pro-poor development programs and strategies *(Mekonnen, 2008).*

As Getaneh (2005) indicated in his study that, the Ethiopian government has established the regulatory framework early-on in the development of the microfinance industry has helped to lay out the roadmap for the development of the sector. In particular, the provision allowing MFIs to mobilize small savings from the public has enabled them to finance a substantial portion of their portfolio from internally generated sources.

Microfinance is indicated among the specific means that is given greater emphasis and is expected to play essential role for reducing poverty in rural areas of the country where the bulk of its public dwell. Thus, most of the microfinance services providing institutes have articulated creating a small and easily accessible loan to the poor as their primary objective with the expectation of fostering pro-poor growth.

Microfinance is said to have brought positive impacts on the life of the clients. A growing database of empirical studies shows that microfinance has positive impacts to boost the ability of poor people to improve the conditions in which they live. The poor have taken advantage of increased earnings to improve consumption levels, send their children to school, and build assets. Microfinance allows poor people to increase their incomes by starting new enterprises or expanding existing ones. The argument is that through diversified sources of income, the people could be able to protect themselves against external shocks. Apart from the above-mentioned positive impacts of microfinance, access to financial services whether credit, savings, or insurance enable many poor people to access better healthcare services *(Bamlaku, 2006).*

Microfinance is an enabling, empowering, and bottom-up tool for poverty-alleviation that has provided considerable economic and noneconomic externalities to low-income households in developing countries. How to achieve viability and yet serve large numbers of poor people is considered one of the greatest challenges for MFIs *(Zeller and Meyer, 2002; Hasan et al, 2009)*

2.9. The Schools of Thought on Microfinance Service Delivery

As welter (2010) and other scholars indicated there are schools of thought on how to deliver financial services to the poor. These include the *institutionalist, minimalist, welfarist, and the integrated service delivery approaches (Welter, 2010; Woller and Woodworth, 2001).*

The *institutionalist approach* centers on financial deepening of building sustainability to serve those excluded from services of conventional banks. Achieving financial self-sufficiency and the number of clients served (breadth of outreach) are at the heart of this approach. Institutionalists do not agree on directly targeting the very poor. Because targeting the very poor is costly that hinders financial self-sufficiency.

The *welfarists approach* argues that it is possible to realize breadth and depth of outreach with poverty targeted services. For welfarists, the net social benefits derived from serving a limited number of very poor clients are better than serving large numbers of not-so-poor clients *(Woller and Woodworth, 2001).* To have the same effect on social welfare, the self-sustainable lender must have 15 to 125 times the breadth of the poverty lender (*Schreiner, 2002; Morduch, 1999)*

The two divisions of the institutionalist and welfarist approaches have practical inferences on differences in the plan for service delivery, institutional structures and financing, and segregation of the potential clients to be served. Their basic difference lies at focusing on the institutional sustainability on the part of institutionalists but social benefits of welfarists. Hence, institutionalists give main concern to the business; welfarists focus on clients. As to welfarists change in the life of clients would be brought trough provision of both financial and non-financial services with the aid of subsidies. Subsidies, for institutionalists, are start-up fuels and finance new innovations in an effort to enhance efficiency to be sustainable. Welfarists blame that MFIs are urged to divert from their mission of serving the poorest of the poor.

The *minimalist approaches* focus only on financial services. In fact, most MFIs are minimalist in design and delivery *(Woller and Woodworth, 2001; Welter 2010).* For minimalist, non-financial services delivery weakens the sustainability and is not a basic condition for quality microfinance provision (*Woller and Woodworth, 2001).*

The *integrated service delivery approaches* belief that the poor are constrained with many factors beyond finance. The approach combines financial products with other services to impact. The integrated service delivery approach incorporates the provision of non-financial services related to health, nutrition, education, and business development trainings. *(Woller and Woodworth, 2001)*

Cost of service delivery is the key issue of debate between minimalist and integrative programs. This leads to think about whether there exist tradeoffs between sustainability and poverty alleviation missions of MFIs.

2.10. <u>Outreach in Microfinance</u>

Outreach is "a social benefit of microfinance" aiming at improving the well being of the poor. It is the services provision to a large portion of the society *(Schreiner, 2002).* In other words, it is an effort to extend microfinance services to the people who are underserved by formal financial institutions *(Lafourcade et al, 2005).* Outreach is the ability of any MFI to provide high-quality financial services to a large number of clients. As an ambition, it calls upon MFIs to reach a large public and to have a significant and increasing volume of activities *(Hasan et al, 2009)*

There are evidences to prove that access to financial services helps to accomplish economic prosperity at all levels- from individual level to national economic level. More specifically, provision of financial services to poorer segment of the population is an effective strategy for development. Providing opportunities for access to financial services to the poor raises economic wellbeing and social development. Provision of financial services to poor can thus be regarded as one of the main strategies of development efforts, but formal financial sector institutions are reluctant to supply financial services to poor considering higher costs and risk involved when transacting with the poor. Therefore there is a higher possibility that the poor to be kept away from the formal credit market *(Schreiner, 2002).*

As Bamlaku (2006) indicated in his study, in developing counties the poor section of the society were simply kept out of the reach of the formal financial institutions for several reasons.

- Formal financial sectors require collateral and credit rationing.
- Formal lenders prefer for high income clients and large loans.
- The processes and procedures of providing loan are bureaucratic and lengthy.
- Formal lenders are often urban based and give lending to those engaged in trade and industry.
- Formal lenders usually consider the demand for loan by the poor as unattractive and unprofitable.

The poor need finance services; they should be able to borrow money for consumption purposes, start a business, expand an enterprise and need to save in small amounts and send their child to school and all these opportunities open the door to increase quality of their lives. Access to financial services at all level of the economy makes substantial growth and development, and this is more consequential for poor *(Herath and Ahmad, 2007).*

Over the last decade, MFIs in Ethiopia have been able to serve the productive poor people mainly with savings and credit services. Governmental and other developmental organizations have played their own role for the positive achievements made in the country's microfinance sector so far. Despite such remarkable progress in outreach growth and performance, the MFIs in the country are said to meet, so far, insignificant portion of the market for microfinance available in the country**.**

2.10.1. Aspects of Outreach

Six dimensions of outreach are identified to fit the outreach and sustainability debate.

a) **Worth or quality of outreach:** centers on contractual terms related to amount of loan, credit period, amortization of debt, interest rate, safety and unlimited withdrawal of savings that fit with the demands of clients *(Schreiner, 2002)*. Worth of outreach to users is how much a borrower is willing to pay for a loan. Worth of outreach to clients is the amount of disbursement (loan size), the term to maturity, size of installments and other terms and conditions have been suited to demand.

b) **Cost of Outreach:** indicates how expensive these products are for the clients, both price and transaction costs are considered. Price costs are direct cash payments for interest and fees that are revenues for the microfinance institutions. Transaction costs are non-price costs for both non-cash opportunity costs such as the time to apply for a loan and indirect cash expenses for such things as transport, documents, food and taxes needed to use a financial contract. Transaction costs are borne by the user and are not revenues for the institution *(Schreiner, 2002; Gonzalez-Vega, 1998; Navajas et al, 2000).*

c) **Depth of outreach:** indicates the ability of the institution in reaching clients "deep in the pool of the under-served". This can be confirmed using the depth of outreach index that encompasses the poor, women, rural inhabitants, and the uneducated as believed to be the attributes of those excluded from conventional banks and are very poor *(Schreiner, 2002).* The poorer the client, the greater the depth of outreach.

d) **Breadth of outreach:** refers to the number of clients served. In addition, the type of products and services offered measures the breadth of outreach *(Schreiner, 2002)***.** Breadth of outreach counts the numbers of clients of a given depth who are supplied with a microfinance product of a given quality (worth) and a given cost.

e) **Length of outreach:** is the provision of microfinance service for indefinite period of time in the future or it is the time frame of the supply of microfinance. Length of outreach is the time frame in which a microfinance organization produces loans. Length matters since society cares about the welfare of the poor both now and in the future. (*Navajas et al, 2000).* Length of outreach requires sustainability. Because, without the desire for sustainability, clients, staff and managers of MFIs will not have sufficient incentives to make the right decisions *(Gonzalez-Vega, 1998).*

f) **Scope of outreach:** implies the types of products and services offered to clients. Scope between products might mean loans, savings, insurance and other products or services offered broken down by product lines or product types. Scope within a product might mean loans to both groups and individuals *(Schreiner, 2002; Praveen, 2009).*

In sum, serving a broader range of clients including the vulnerable poor and those excluded from conventional banks helps to diversify risk while reaching the very poor in a sustainable way (*Praveen, 2009).* Poverty alleviation through microfinance requires reaching the poor lacking productive capital through building viable institutions. Practice has shown that a successful outreach is also needed to make sustainability possible *(Hasan et al, 2009).*

2.11. Sustainability of Microfinance Institutions

Adequate financial services can only be permanently and reliably provided by sustainable financial institutions with adequate microfinance products and cost-effective outreach to the poor. The development of sustainable financial institutions will contribute to the expansion of their outreach to the poor. However, while improving the institutions' capacity in general to serve a wide range of the poor is important, this is not sufficient to ensure that their services are made available to certain categories of the poor, such as those in resource poor and low population density areas, the poorest of the poor, and ethnic minorities. Sustainability is the ability of MFI to meet its operating and financial costs over the long run. A sustainable institution is one that is viable and depends on its own resources rather than those of donors. A viable institution is able to cover its costs and perhaps make a profit from its business operations *(Seibel, 2002)*. Vatta (2003) states that sustainability is essential for two reasons: first, the goal of microfinance practice should be to extend the reach of commercial financial markets to the poor and the excluded; and, second, sustainability is necessary to prevent MFIs from concealing bad practices with ongoing subsidies.

2.11.1. Institutional Sustainability

Institutional sustainability can be defined as the continuous service provision to clients profitably as a going concern without relying on subsidies (*Ledgerwood, 1999)*. As Herath and Ahmad (2007) suggested there are no precisely set and universally acceptable indicators of institutional sustainability but identified four dimensions of sustainability as *continued benefit flows, longevity/ survival, ability to meet recurrent costs, and institutional capacity and performance (Herath and Ahmad, 2007)*. Sustainability is beyond "calculating sustainability rates". It is about ensuring effectiveness, building and maintaining capacity, and realizing that capacity into tangible results. Sustainability is of two types: operational and financial sustainability. Operational sustainability is the ability of the firm to cover operational costs from revenue earned from major lines of business. Financial sustainability is the entity's ability to operate without subsidies. Subsidies seem a fact of life for microfinance institutions *(Morduch, 1999)*.

Welter (2010) indicated that the basic measures of sustainability are operational self-sufficiency, financial self-sufficiency, and profitability. **Operational self-sufficiency** measures the capacity of MFIs to cover operating expenses, financing costs, and allowance for bad debts from operating revenues *(Welter 2010)*. Operational Self-sufficiency ratio is an indication of an institution's ability to generate revenue through its usual operating activities to cover operating expenses, administrative costs, bad debts (loan loss provisions) *(Ledgerwood, 1999; Herath & Ahmad, 2007)*. *Financial self-sufficiency* measures the ability of MFIs to cover all direct and indirect costs without subsidies taking adjustments to operating income and expenses.

Profitability is achieved when profits net of taxes and subsidies are at least equal to the opportunity cost of capital and risk taking. Operational efficiency is the ability of an institution to offer a particular service at the lowest cost. Empirical evidences show that internal inefficiencies worry microfinance organizations whether they are subsidy dependent or not. Window dressing in financial reporting is a way to hide institutional inefficiencies from period to period. Many of the MFIs experience management inefficiency, high running costs, persistent subsidy dependence, inclination to social service than business approaches, non-performing loans, higher default rates, small number of clients and targeting failure of the very poor. Those MFIs that secured self-sufficiency are through extending credit to marginally poor rather than the poorest. Hence, many of the MFIs are unable to keep their promise of "including the excluded*" (Woller and Woodworth, 2001; Zeller and Meyer, 2002).*

2.11.2. Financial sustainability

The other indicator of performance of a micro finance institution is its financial sustainability. Meyer (2002) also stated that the financial non sustainability in the MFI arises due to low repayment rate or un-materialization of funds promised by donors or governments. "Measuring financial sustainability requires that MFIs maintain good financial accounts and follow recognized accounting practices that provide full transparency for income, expenses, loan recovery, and potential losses" *Meyer (2002).* **Financial Self-Sufficiency,** which referred as high standard measure, is when MFIs can also cover the costs of funds and other forms of subsidies received when they are valued at market prices. Financial self-sufficiency shows cost recovery regardless of size of operation and gives a quick synopsis of the general performance of the institution. It gives a clue on the sustainability of the institution considering the impact of subsidies into account. To continue in the industry as a going concern, "MFIs should be-or strive to become financially self-sufficient" (*Halder and Mosley, 2004).* As to Welter (2010) "having a positive financial self-sufficiency ratio alone is not sufficient". Because financial self-sufficiency can be achieved either from internal strength of the institution through strict cost control or charging higher interest rates to hide management inefficiencies. Progressive lending at a larger scale and efficient operation helps to achieve financial self-sufficiency while working with the poorest. Internal efficiency and organizational strengths, rather than the clients served, determines the potential for financial self-sufficiency.

Ensuring scale of outreach permanently is a "function of financial viability". Clients negative perceptions on the future survival of the institution and reliance on external financing rather than internally generated resources "creates incentives to default" *(Caudill et al, 2009).*

The sustainability of MFIs depends, among other things, on elements such as the *structure of interest rates*, *Productivity* **(**the degree to which institutions are able to maximize services with minimal resources**),** *operational Efficiency* **(**the degree to which institutions are able to minimize costs when delivering services.**),** *Profitability***,** *financial structure (*various fund sources and compare them with assets purchased with those funds.*)* and *Portfolio Quality* **(**the health of productive assets and the risks attached to it. It determines future revenues and an institution's ability to increase outreach or serve existing clients**).**

The availability of credit alone could not be a solution to the problems of the very poor. Microfinance to impact on the life of the poorest should be delivered with non-financial services, which is a big obstacle to attain sustainability. Still reaching the poor and sustainability are unresolved controversies in the microfinance industry. Sustainability is not an end in itself but rather a means to the end of improved social welfare *(Rhyne, 2009).*

2.12. Sustainability vs. Outreach

Sustainability and outreach are two long term goals that microfinance institutions eventually strive to achieve *(Ledgerwood, 1999).* Achievement of sustainability has been one of the important goals of microfinance institutions, because reduction of poverty can only be achieved if these institutions generate excess earning over the total cost in the long run (*Herath and Ahmad, 2007).*

There are two current imperatives within the microfinance sector – "increasing outreach" and "improving sustainability". There is, however, a creative tension between these two imperatives. On the one hand, if "increasing outreach" is taken to mean "more clients from a similar demographic", then "outreach" and "sustainability" are effectively identical terms. Increasing client outreach provides economies of scale that in turn makes the microfinance program more efficient and therefore more sustainable, at least in immediate financial terms. It is a case of "more of the same", while continually seeking incremental improvements in operational efficiency *(Seibel, 2002).* On the other hand, if "increasing outreach" is taken to mean "targeting hard-to-reach clients" such as people living in remote areas, then "outreach" and "sustainability" are effectively competing terms. Reaching clients in remote areas is relatively expensive, which makes the microfinance program less efficient and therefore less sustainable (*Mathison, 2005).* Sustainable institutions reach the wider range of clients and can contribute to the development process *(Caudill et al, 2009).* Financial sustainability is vital to serve clients permanently and "the only way to make an impact far beyond what donor agencies and most governments can fund" but is "not an end in itself" (*Praveen, 2009).*

Sustainability is not an end in itself but rather a means to the end of improved social welfare *(Navajas et al, 2000).* Outreach and financial sustainability are "the two core drivers" in the industry while "the latter has come to dominate the agenda" threatening the social mission of working with the poor *(Lensink et al, 2008).*

Serving the very poor and attaining sustainability is a challenge to the microfinance industry. There is a common assumption in microfinance operations that tradeoffs exist between outreach and sustainability. It is not possible to conclude exactly on outreach and sustainability as mutually exclusive goals. It is difficult to presume that deeper outreach is a constraint to sustainability and vice versa *(Caudill et al, 2009).* There are differences and debates on "tradeoffs between outreach, impact, and sustainability" in microfinance operations and "what to do about them". Reaching the very poor and becoming profitable is a debate among MFIs (*Praveen, 2009).*

The poorest can use financial services for improving their economic and social well-being without endangering institutional sustainability of the service provider (*Mathison, 2005).* There exists "no necessary tradeoffs between serving large numbers of the poorest households and the attainment of institutional financial self-sufficiency by any MFI" (*Halder and Mosley, 2004).* In fact, it takes longer to make a profit and become financially sustainable while working with the poor but not unattainable goal. The tradeoffs between achieving the two goals are "less acute than originally thought". Provision of better quality services to the very poor is possible while covering full cost. The cross-cutting challenges of the industry are increasing the numbers of clients and reaching the poorest sections of the society at the lowest cost possible (*Praveen, 2009).*

Microfinance institutions focus on providing credit to the poor who have no access to commercial banks. While microfinance institutions try to be financially sustainable, they appear to be often loss making. The possible trade-off between efficiency and outreach is one of the most important topics in recent discussions on microfinance *(Lensink et al, 2008).* Some believe that only when sustainability is achieved can outreach be effective. Others believe that outreach is necessary to achieve sustainability. These issues are the main debate area in microfinance institutions.

Importance of subsidy for microfinance institutions

Subsidies are common in microfinance, especially in the form of soft loans. Subsidies should enhance and stimulate efficiency, rather than obliging any MFIs to choose between its social objectives and financial performance. Microfinance traditionally supported by aid agencies and nonprofit entities (*Krauss and Walter, 2009*). Microfinance has started operation with donor funds and now the industry has almost aged around 30 years. There is an intense debate on whether MFIs should continue to be donor supported or get relived from donation and stand on their own leg. There is school of thought which say microfinance can be sustainable with donor funds (welfarist approach) and the others say the microfinance should generate enough revenue to cover their own costs as donors funds are unpredictable (institutionalist approach) (*Woller and Woodworth, 2001).* Hence the issue of building a sustainable microfinance institution that can operate without a donor funds is of an empirical enquiry *(Letenah Ejigu, 2009).*

Until now, subsidies, whether local or international, have contributed in jump-starting and strengthening microfinance. Subsidies have been injected so as to fuel the development and growth of microfinance. Subsidies served in portfolio funding and capacity building of the institutions in expectation to decline as the industry matures. Donor funds have been used for institutions that started the financial services to the poor which were unthinkable for the private sector due to high risk, high costs and minimum returns. Still the role of donors in supporting the industry through financing research and development is vital.

Provision of financial services at subsidized rates leads MFIs to depend on grants to sustain their operations due to insufficient operating revenues to cover full costs, which impede their sustainability in the long run. Capability of MFIs is still questionable except the interest in the sector and lots of subsidies channeled to the industry. Subsidies to MFIs seem inevitable due to high cost of information, high-risk clients, and low returns on investment but require justification on social equity, public benefit, cost effectiveness, or other grounds *(Welter 2010)*. Even if subsidies do have contributions that range from access to start-up fuels as loan fund to capacity building, its cons should be considered. Microfinance has been able to attract the interest of governments. But this sensitive interest has its opportunities and challenges. Governments can play a positive role in policy formulation and leveling the field towards the creation of sustainable institutions. Others consider the sector as donating money to poor people ignoring the wide range of financial services required by the poor. It goes to the extreme of setting political criteria rather than proper credit discipline and guidelines on selection of clients and operational locations. Reliance on subsidies can lower the encouragement to mobilize savings. Subsidies should leave the way to private funding sources.

Dependence on subsidies might change incentive structure of the microfinance institutions by reducing the chance of a positive event. Subsidies may discourage the incentive of firms to analyze their true costs to set appropriate prices and operate efficiently. Microfinance institutions should be required to practically show that they are efficient ways for delivering subsidies to serve the market if subsidies are required. Public funds channeled through microfinance should make a difference in the lives of poor people (*Letenah Ejigu, 2009).*

2.13. Measures of Poverty Targeting in Microfinance

The slogan in the mission of the microfinance is "***alleviating poverty by reaching the very poor"***. The extent to which MFIs are able to reach the poorest of the poor with their services is still an open debate. The poorest are those people belonging to the bottom line of the group of people living below a country's nationally defined poverty line. As there is no consensus on the definition of the ultra poor it is not simple to identify them. Aspects such as quality of life, health, women's roles, and empowerment are difficult to quantify. But most of the attributes are related to lack of access and control to assets and limited source of income. Various indicators should be considered like income, job, housing, geographical location, and household features in targeting the poor.

Careful and clear targeting measurements of the poor are necessary. As woller and woodworth (2001) indicated different MFIs have set their own techniques of reaching the poor. The basic essence of these methods is on how to attract the poorest and discourage the better offs. Among those practically employed methods Credit and Savings for the Hard-Core Poor (CASHPOR) housing index, Participatory Wealth Ranking (PWR), Geographical Distribution of Poverty, small size loans, household survey and house visits of potential clients are the major methods of targeting the poor *(Woller and Woodworth, 2001; Woller and Schreiner, 2002).*

- The *CASHPOR housing index* is based on looking at the quality and condition of a house .It takes into account the size, physical condition, and building materials of the house. People living in houses constructed from mud bricks, with poor quality roofing, small windows and in a general state of poor condition tend to be selected as the poorest.
- The *Participatory Wealth Ranking* community members rank themselves according to their understanding of poverty.
- *Geographical Distribution of Poverty* serves to identify area of intervention for the microfinance service providers.

- *Small size loans* method of identifying the poor is used by limiting the size of credit to be given that discourages the non-poor from joining microfinance.
- *House visits of potential clients* give a chance for credit officers to get first hand observation on the living condition of the poorest. It also helps to exchange information about income and expenditures of the family.

In general, the microfinance industry demands globally recognized measures of poverty outreach to evaluate its contribution in the fight against poverty *(Welter, 2010; Halder and Mosley, 2004)*

As experienced in most MFIs, lack of clearly stated and effective targeting strategy leads to the shallow depth of outreach. Understanding the desires and needs of the very poor and offering products and services that satisfy them ensure deep outreach.

CHAPTER THREE
Profile of the Amhara Credit and Saving Institution

In this part of the paper the researcher tried to give highlight about the institution. It covers historical background, governance and ownership, vision, mission, objectives, values and principles, organizational structure, products and services and targeting principles of ACSI.

3.1. Historical Background

The Amhara Credit and Saving Institution was established in the Amhara Region, Ethiopia, aiming to feel the gap of formal institutions to meet the need of small-scale borrowers in income generation schemes. Its operation is traced back to September 1995 when it was initially initiated by the Organization for the Rehabilitation and Development in Amhara (ORDA), an indigenous Non-Governmental Organization (NGO) engaged in development activities in the Amhara region. 1996 was the year when ACSI had undertaken its pilot activities and it was licensed as a MFI in April 1997. ACSI started its operation by first opening 6 branches. But prior to its operation it took about nine months to do preparatory works including baseline survey, setting the objectives, strategies, organizational structures of the institution, preparing the necessary recruiting and training staffs. Currently, the institution has 10 main branches, 198 sub-branches and over 2,700 employees.

3.2. Vision, Mission and Objectives

Vision: ACSI aspires to see a society in which people are free from the grips of abject poverty with all the power determining their future in their own hands, and its own capacity as an institution well developed to provide best services for all in need in a sustainable manner.

Mission: ACSI's primary mission is then to improve the economic situation of low income, productive poor people in the Amhara region, primarily through increased access to lending and saving services. It will maintain cost effectiveness in service delivery, and integrates its activities with government and NGOs working towards achieving food security and poverty alleviation in the region.

Objectives of ACSI

- Productivity Objective: To promote agricultural and non-agricultural economic activities of the rural productive poor by providing innovative financial services.
- Outreach objective: to alleviate poverty, and stimulate the region's economic growth, giving priority to rural and remote communities, particularly women.

- Impact objective: Significantly to increase client's income and asset position.
- Institutional sustainability: to promote sustainable financial services, both operational and financial.

3.3. Ownership and Governance

Proclamation 40/1996 requires the establishment of microfinance institutions as a share company as per the Commercial code of Ethiopia (1960), and demands that the MFIs be governed by board of directors selected by the general assembly of shareholders. ACSI has been licensed as a microfinance share company in April 1997. The main shareholders of ACSI are the regional government (25%), ORDA (35%), Amhara Development Association (ADA) (20%), Amhara Women's Association (AWA) (10%) and Endeavour (10%). Major donors and supporters include: Swedish International Development Cooperation Agency (SIDA), International Fund for Agricultural Development (IFAD), The United States of Agency for International Development (USAID, Packard Foundation, etc.

ACSI's governance structure has the following components: the general assembly of shareholders, board of directors, external auditors, and the general manager. The board is entrusted with the responsibilities of providing overall guidance and policy directives while the general manager is responsible for the day to day management of the activities of ACSI.

3.4. Organizational structure of ACSI

ACSI has a three-layered organizational structure: head office, branch and sub-branch. Whereas the head office and the branch offices mainly do the administrative task, the sub branch conducts the main marketing, operation, with staff directly contacting credit and saving clients: loan delivery, monitoring, and recollection and saving mobilization. ACSI has 10 branch and 198 sub branch field offices to implement its plans. Each sub branch operates as profit center. Currently, ACSI has more than 2,700 employees with the educational level of 12th grade complete, certificate, diploma, and degree and above; over 65% are at sub branch level, having direct contact with clients *(ACSI, 2009)*. The institution's organizational structure is shown in the following figure:

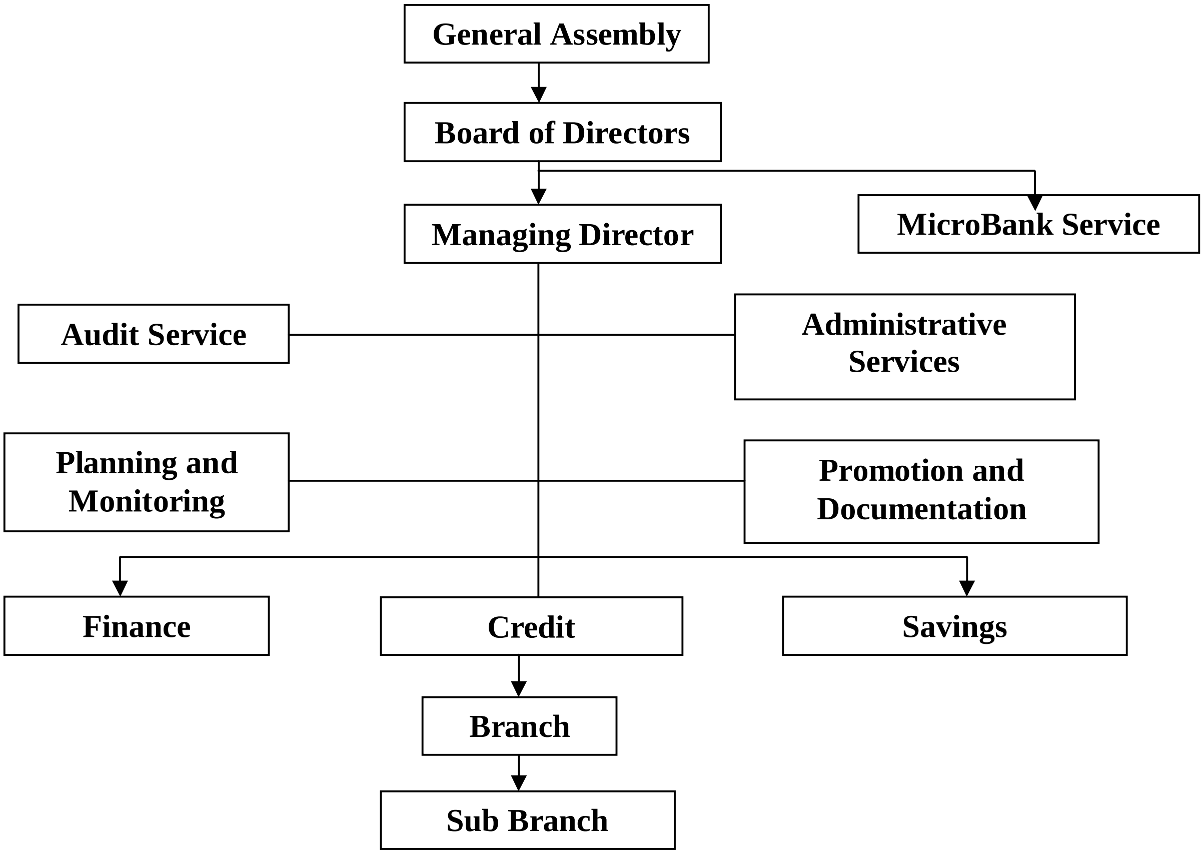


Chart 1: Organizational structure of ACSI

ACSI has established Human Resource Development and Administration unit with the responsibility of recruitment, selection and training of staff. New employees are trained within ACSI itself. Thanks to the strict selection procedure that ACSI follows it can be said that the staff both management, administrative and program staff have high degree of commitment to the vision of the Institution and willingness to work in a learning environment where uncertainty is likely, flexibility required and experimentation necessary.

The Control System: Even with sufficient client ownership and community participation, for any MFI, a system of *internal controls* should be in place to prevent corruption and to ensure that no funds are misused. In fact internal control goes beyond those matters related directly to the accounting system. ACSI's internal control system involves establishing a strong, pro-active team actively identifying and anticipating potential risk areas and implementing strategies to mitigate such risks, while at the same time setting clear segregation of duties between, for example, back office and field tasks, and between cash handling and other functions, etc.

Management Information System: For any financial institution, efficient management of financial data is a crucial task. Information on loan portfolio, financial accounting and others has to be evaluated fully, by Branch and Sub Branch and accurate, timely and comprehensive *reports* produced and provided to the different levels of users such as management, staff, board, others. The Institution has little usage of computerized Management Information System to capture relevant data and to generate desired management reports.

3.5. Products and Services of ACSI

ACSI currently delivers micro-finance activities including, credits, savings, micro insurance, money transfer, and fund management.

Credit delivery: This activity, which again comprises various products such as group loans, micro-bank individual loans, and asset loans delivered to economically active poor people involved in income generating activities.

Saving mobilization: There are two kinds of saving products (Compulsory Savings (exclusively for loan clients) and Voluntary Savings) that ACSI provides for loan clients as well as for the public at large. The savings services are designed with the aim of instilling the culture of modern saving, reducing the high propensity to spend economic surplus on social and religious activities in pursuit of more efficient utilization for income expansion and poverty reduction activities in the region.

Micro insurance**:** Life insurance services delivered to group of loan clients for the purpose of protecting risks of default and the associated debt burdens problems of group borrowers and the family of a died client.

Money transfer: ACSI is also involved in the business of local money transfer, particularly to institutions.

Fund management: ACSI serves as local agent of fund management at grassroots level where it has sub branches, including for pension and social security Authority to disburse pension for retired government employees. ACSI has a clear organizational advantage, having offices at all *woreda* level and even beyond.

3.6. Targeting principles of the institution

Due to the scarcity of loanable fund and the limited capacity of the institution to meet all demands in the region, ACSI entertains targeting principles based on area, household and gender priorities.

Area targeting: ACSI, in consultation with woreda and kebele administrations, give priority to chronic food insecure areas.

Household targeting: Using a combination of poverty assessment at the household level and targeting methods, ACSI gives priority to those with one or no ox worth, and those who sell their labour for daily bread in rural and urban areas respectively.

Gender targeting: all economically productive but poor individuals of the region are the main target groups of the institution especially women clients. Special focus is given to women as they are the ones who most suffer from all kinds of poverty and deprivation, and at the same time improvement in women's income can have immediate impact on household poverty and nutrition. Women are encouraged to start some business activities so as to improve their bargaining power within the household through enhancing their "breakdown position". ACSI has a target of delivering at least 50% of the credit service to women.

CHAPTER FOUR

Data analysis and Presentation

For the purpose of detailed analysis of the result obtained breakdowns of the section in to four parts are made. Part one presented the overall service delivery and related issues of ACSI based on the data obtained from the survey questionnaires and interview. The outreach performance of the institution is presented in the second part of this section. In the third part of this section the researcher presented sustainability performance of ACSI by calculation of ratios that indicates the productivity, efficiency, profitability, financial and operational self-sufficiency, and loan portfolio quality. The last part talks about the performance rate of ACSI by MicroRate International Rating Agency.

4.1. Credit and saving provision methods of the institution (overview)

4.1.1. CREDIT PROVISION

4.1.1.1. Types of loan

The institution provides five types of loan facilities to its customers. These are:

i. *Small scale loan*: for economically productive poor as initial and working capital.

ii. *Agricultural loan*: for farmers engaged in agricultural activities. It is given for fertilizer, improved seed, pests and chemicals needed to increase agricultural productivity.

iii. *Package loan*: given for food security

iv. *Asset loan*: for house construction, maintenance and furnishing

v. Micro and small enterprise loan

The institution provided the above types of loan through group collateral and asset collateral lending system.

Asset collateral system is the provision of loan by holding an asset as a security for the loan amount taken. ACSI takes houses, car, land and other fixed assets as collateral for loans allowed. Most of the time asset loans are taken by urban rich customers of the institution.

Group collateral system

Group collateral lending method is the possible way outs for reaching the poorest that lack physical collateral *(Getaneh, 2005)*. ACSI follows group lending methodology that a group is taken as a social security to guarantee for a loan in case a member defaults. Each group member guarantees for the rest of group members. Before lending credit, clients are expected to form groups by themselves with no external pressure or interventions that break their interest and willingness *(ACSI, 2009)*.

Group members should have no family ties. It is preferable if members in a group have more or less similar economic capacity or living status, live in the same area and almost take relatively equal loan amounts. Group members range from 5 to 7 individuals. While in group formation, the required trainings on credit and saving management will be given by the institution for 3 to 5 days. They will also be trained on group formation, group liability, institutional rules and regulations and drafting of group and centre by laws. The group members will choose their group and center leaders. Group leaders will work in consultation with other group members and represent their group while dealing with field officers. The group leaders submit loan applications of members, monitor and follow-up loans given to members and timely repayments, assist credit and saving officers in saving and repayment collections. They also serve as a witness in collection of cash whether it has been done properly *(ACSI, 2004)*. Most of the time group collateral system is used by poor urban and rural customers of the institution.

4.1.1.2. Loan Eligibility Criteria

In order to provide effective credit the institution has its own selection criteria. Effective and profitable financial service delivery requires identifying who the potential clients are and differentiating the market base on credit demand. MFIs know that very poor clients are among the potential market niches beyond the social perspective (*Hulme, 1999)*. In the case of ACSI the productive active poor with the demand for such services are the target customers. Hence, as much as possible, even if it is hard to set clear-cut criteria to identify the poor, the institution has established some selection criteria. Potential clients are those economically productive urban and rural poor lacking access to conventional banking services because of lack of collateral provided as a security for the banks. Loan applicants are expected to be those in need of working capital and able to utilize the loan in productive ventures. ACSI takes into account age, gender, personal characteristics, and wealth condition in selecting clients. Some of the criteria used in selecting a potential client for credit are:

i. Potential clients need to be between 18 to 65 years of age and economically active;
ii. Potential clients must be in the category of the poorest of the poor, owning not more than an ox or an asset of its equivalent; in other words it should have low annual income (unable to cover their annual expenditures)
iii. The potential customers need to be credit worthy, with good reputation among the community that can be confirmed by the local credit and saving committee as well as the staff of ACSI and not have previous debt from other sources;

iv. He/she should present a business plan that also confirms the availability of market for the product/service loan is requested for;

v. Willingness to be a member of credit group and abide by the laws of the group;

vi. He/she must be willing to save some part/percentage of his/her business income at ACSI.

vii. The potential customers should be permanent resident in the community

viii. He/she should be free of any mental illness or other illnesses that prohibits from working, and

ix. He/she should be free from any socially unacceptable behaviors, like theft and drunk. (ACSI. 2009)

As per the information obtained from the institution, by keeping the above criteria, civil servants with an annual income of not greater than 2,000 birr with a productive household member can be selected for the loan provision (ACSI, 2009). In addition, more priority is given to women customers. Targeting women is necessary to impact on poverty because women use their income for the well-being of the household and empowers women in making economic decisions. The above customer selection methods of ACSI influence its outreach directly in terms of loan size. For instance, economic condition is one of the selection methods for selection of clients this have an impact on the loan size to be approved for that customers.

4.1.1.3. <u>Credit and saving committee</u>

New clients are selected based on community participation. The institution has its own credit and saving committee at each sub-branch level organized for the purpose of screening viable customers. This committee has a member of 4 to 5 individuals these are the chairman of the center, credit and saving officer of the center, public relation officer, and two/one representative member from the community (one male or/and one female). The committee was also organized at community level and has contributed in minimizing information asymmetry problems about the creditworthiness of clients. This helps to reduce risk of non repayment of loans (loan Loss). It is believed that the committee adequately knows qualified potential clients according to the criteria of the institution. The committee goes to the borrowers' resident place in order to collect information about the potential customer for loan approval by communicating with kebele and wereda administrators. The information that is collected by the committee includes the health condition, previous credit information, family status, economic condition of the clients…etc. The committee also assists in loan monitoring and follow-up as well as putting pressure on timely collection of loans. Much of the burden on initial client selection rests on the committee. Then the committee recommends the amount of loan to be allowed for customers for the first loan. Starting from the second loan, credit decisions are made by the sub branch office *(ACSI, 2009)*. Acquiring information about potential clients has a contribution in reducing risk and lowering costs. Collecting information concerning the characteristics and credit worthiness of borrowers is costly. Well-informed clients about the performance of the financial institution will also be benefited in making choices among alternative service providers.

4.1.1.4. Loan appraisal and Disbursement

ACSI advances credit only to income generating activities. No consumption loan is granted. The institution finances activities like farming, animal fattening, petty trade, agribusiness, handicrafts, and service businesses. The loan size the clients requested is to be decided considering various factors. These include the type of activity the client engaged in, borrower's capacity, rough budget of expenditures, credit history, institutional capacity and regulations of the supervising agency. As per the regulation of the NBE the maximum loan to be given to a single borrower is Birr 5,000. "Loans extended to any one borrower by a licensed institution shall not at any one time exceed Birr Five Thousand (Birr 5,000.-)" *(NBE, directive No. MFI/5, 1996)*. Through group collateral lending system the loan size ranges from 300 to 5000 birr and through asset collateral i.e. individual loan the loan size ranges from 5001 to 3,000,000 birr *(ACSI, 2004)*. Clients should get consent of their group members to get a loan. The customer should understand and be aware of the credit terms of repayment period, interest rate, and activity to be financed with the loan.

Before granting the loan all the necessary procedures should be completed like completion of forms and spouse signature. Getting signature of the spouse is vital in enforcement of repayments, mutual accountability, and proper credit utilization. Sometimes credit granted without knowledge of the spouse leads to conflict in the household and even to the extent of divorce.

ACSI follows progressive lending technique in determining loan sizes. New clients are assumed to have less understanding and awareness about institutional procedures and loan utilization resulting high credit risk. The loan given in the first round ranges from birr 300 to 3000 in rural areas and from birr 500 to 5000 in urban areas. The second loan will not be more than twice the first time loan amount. The third round loan will not be more than 75% of the second loan taken. If the client's financial management capacity is improved step by step the fourth loan will be the third loan plus half of it. The fifth and above round loans will be given up to Birr 5,000 taking into account clients' business plan *(ACSI, 2009)*. But the maximum limit for each loan doesn't be exceeded in any level of the loan.

4.1.1.5. Mode of repayment of Loans

ACSI commonly follows two types of credit repayment conditions. These are the Installment loan and Term loan. Loans given to petty trade, handicrafts and service businesses are amortized monthly over a year with equal installment. This method is highly appreciated and encouraged from institutional perspective to minimize risk of losses due to default. It is also helpful to the debtor as the burden of debt amortized step by step.

4.1.2. SAVING PROVISION

The objective of saving is to help the clients gradually build up income so as to improve their asset position and eventually to enable them to run their business from their own sources. Savings are the major part of sustainable financial service delivery to the poor. Acceptance of saving deposits may "represent the more valued financial service in many instances" *(Getaneh Gobezie, 2005)***.** ACSI accepts deposits from loan clients as well as the public including institutions and organizations. There are two broad categories of saving practiced by the institution. These are compulsory and voluntary savings.

a. Compulsory Savings

This type of saving is positively imposed upon loan. Every loan client is required to deposit on up-front savings of at least 5% of the total amount of the credit he/she applied for. After taking credit it is mandatory to save 1% of the loan taken monthly. The moment he/she has repaid all loan amounts with the interest, he/she can withdraw the total saving amount. Compulsory savings are tied as a security till all group members settle their debt. The interest rate for such savings account is 5% *(ACSI, 2009).*

b. Voluntary Savings

This type of saving can be practiced by anyone irrespective of the loan. It is further divided into passbook savings (Private Account, Joint Account and Minors' Account), fixed time deposits, non-interest bearing accounts (Government and NGO savings), and "*Muday Bank*" (Piggy Bank-a small metallic box by which a client saves money at home). 5-6.25% rate of interest which is capitalized per month is paid for this type of saving.

The minimum initial deposit to open a passbook saving account is birr 2 which is affordable to the poor compared to birr 25 required to open saving account in banks like Commercial Bank of Ethiopia (*ACSI, 2004).* In addition, ACSI serves a joint account saving in which two or more persons run the account jointly. Another type of savings product is minor's saving account offered to children below 18 years that guarantor or parents open on behalf of them.

4.2. Socio-economic conditions of the clients of the institution

Under this sub-section the socio-demographic characteristics of the clients including their age, sex, marital status, family size, educational level and occupation are presented. In addition the clients' wealth condition in terms of housing and utilities conditions, asset ownership, and income and expenditures are discussed.

4.2.1. Socio-Demographic Characteristics of Clients

1. Age

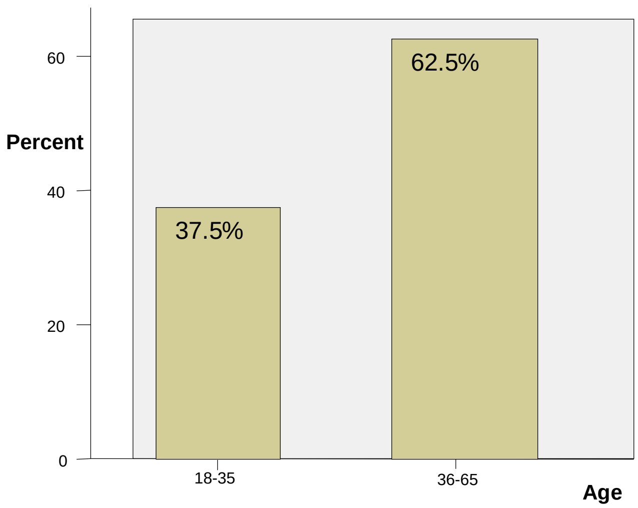


Chart 2: Age of respondents

Age is one of the requirements for eligibility to borrowing money from the institution. The institution has the rule that says "*Potential clients need to be between 18 to 65 years of age and economically active*" *(ACSI, 2009).* As we can observe from the above chart that, 37.5% of the customers age ranges from 18-35 years and 62.5% were from 36-65 years. This indicates that all clients of the institution were in the productive age group and economically active.

2. Sex

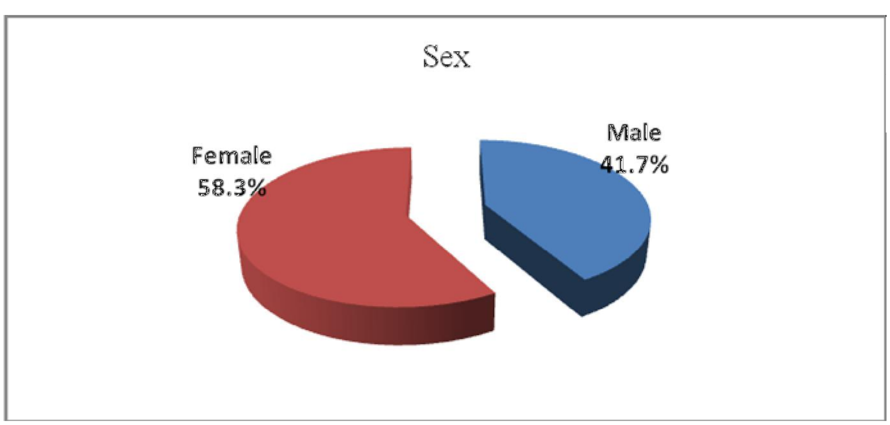


Chart 3: Sex composition of respondents

As we can see from the chart above, most of the customers of the institution are female, i.e. 58.3% are female clients and 41.7% are male clients. This shows that the institution gives priority to woman for credit to make them free from long history of economic dependency within home and in the society as a whole. ACSI believed that lending money for women is better than male because women are less extravagant and more responsible for saving and efficient use of money in the home than male. Therefore, the institution is in a better position to make women economically independent.

3. <u>Marital Status and family size</u>

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	60	33.3	33.3	33.3
	Married	82	45.8	45.8	79.1
	Widowed	24	13.3	13.3	92.4
	Divorced	14	7.6	7.6	100.0
	Total	180	100.0	100.0	

Table 1: Marital status of respondents

From the total respondents 45.8% were married. 33.3%, 13.3% and 7.6% were single, widowed and divorced clients' respectively. From this we can say that most of the clients of ACSI are married households. Some single clients (borrowers) are assumed to be less loyal to the institution in the eyes of the selection committee because it is suggested that these single borrowers are not voluntary to repay the money they borrowed as they live dependent upon their family.

In relation with this the average family size of the client was 5.23 where the majority of the sample respondents have the family size ranges from 3 to 7 members. The average household size as to the survey conducted in 1999/00 was 4.6 and 4.9 for the Amhara region and at country level in rural households *(BoFED, 2008).* However, the clients of ACSI have larger family size compared to the two averages both at regional and national level. This implies that ACSI clients have large family members, which may demand policy revision of incorporating family size when selecting clients for credit provision.

4. Educational Level

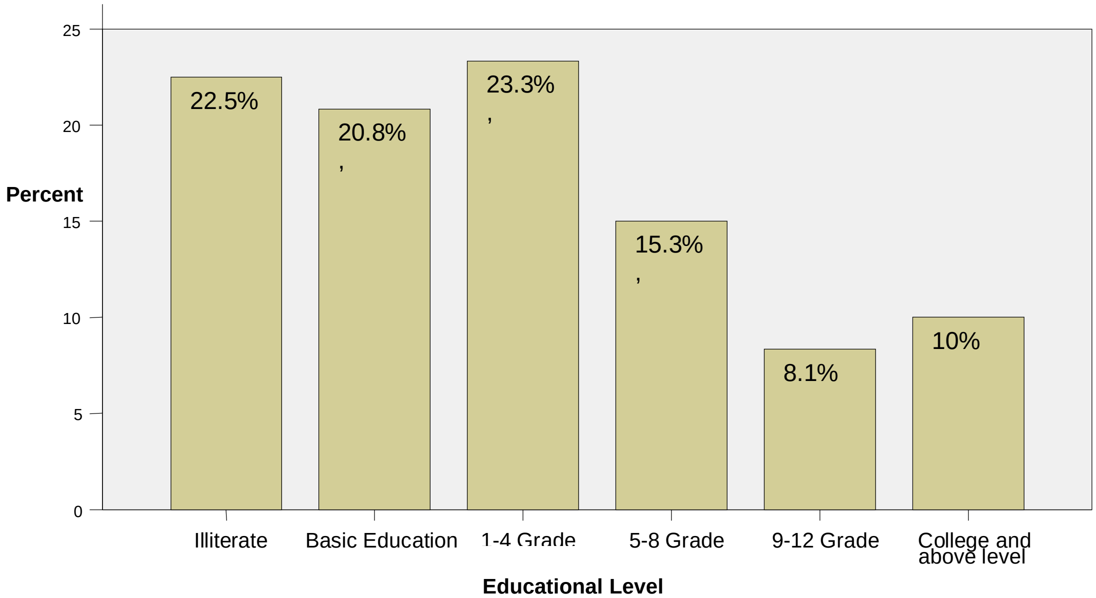


Chart 4: Educational level of respondents

It is known that education is the best instrument for the development of a country. The best way to solve various problems is educating the productive age group by using not only the formal education but also by non-formal educations. Regarding the literacy level of the clients of ACSI, as the bar chart above indicated, 22.5% of them are illiterate who were not able to read and write a single statement. In addition clients with basic education, 1-4 grade, 5-8 grade, 9-12 grade, and college and above level accounts 20.8%, 23.3%, 15.3%, 8.1% and 10% respectively. From this we can conclude that majority of the clients of ACSI are less literate. The main reason for this is most of the clients of the institution are rural residents and poor in their economic condition.

5. Occupation

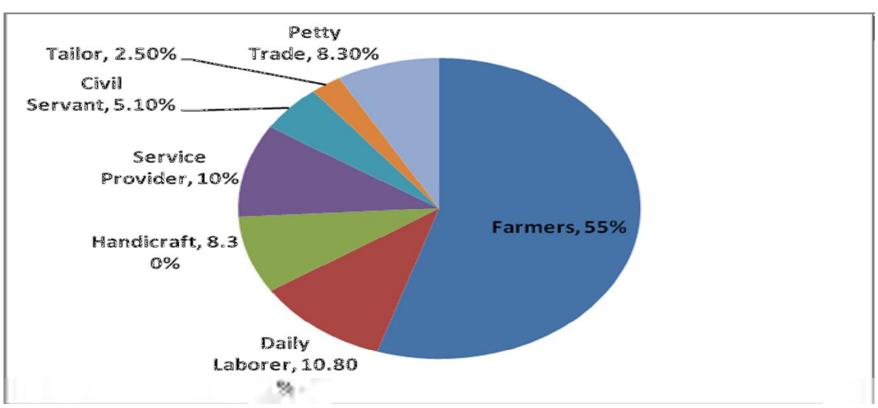


Chart 5: occupation or respondents

It is obvious that microfinance institutions are established to provide service to the rural poor who are unable to get ordinary banking activity because of the access of banks in their nearby areas and the requirement of collateral to borrow money. The above chart analysis shows that farming is the dominant occupation (55%) of the clients of the institution. But farmers are less aware and less experienced in conducting business and capital (monetary) utilization than the rest customers engaged in other occupations. Next to farming both daily laborers and service providers who are using the service of ACSI accounts 10.8% and 10% respectively. The service providers are those individuals who are owners of small sized cafeteria and individuals who are selling local drinks both in urban and rural areas of the region. In addition, handicraft, petty trade, civil servant and tailors clients of the institution accounts 8.3%, 8.3%, 5.1% and 2.5% respectively. From this we can say that ACSI is reaching the rural and urban poor people of the region who are productive but has less access to money.

4.2.2. Wealth Condition of clients

To measure the wealth condition of the clients of ACSI the researcher considered the income and expenditure, asset ownership and the housing and utilities conditions of the clients.

4.2.2.1. Income and Expenditure of the clients

For the majority of the clients of ACSI the major source of income was agriculture that the annual income comes from farming and related activities (67%). 8.8% and 24.2% of the respondents' identified that their source of income was from governmental as well as NGO offices and other sources. The other sources of income of the clients of ACSI are from their own shop (small in size), support from children, and income from service provision as well as profit from their own activities. This indicates that majority of the clients of ACSI are engaged in farming activity and take loan to increase their farming productivity level.

As the data obtained from the questionnaires the majority of respondents' yearly income ranges from birr 1,500 to 6,500. The mean income was birr 4,517.34 per year for one household. However, the mean annual income per household member (per capita income) was birr 863.74 (i.e. 4,517.34/5.23). This implies that the daily per capita income of the clients of ACSI is birr 2.42. More than 60% of the clients are those whose per capita income was below 3 birr per day which is below USD $1 per day (which is equivalent to 17.41birr at the exchange rate during the survey). This tells us that how much ACSI reached the poorest of poor people both in rural and urban areas.

In relation with the expenditure of the clients food was the major expenditure item of the total budget (54.7%). Non-food expenditures like expenses for cloths, health care (situational), purchase of fixed assets, school fee and other expenses account for 45.3% of the mean expenditure. The mean yearly expenditure for the sample respondents was Birr 4,286.57 per household. However, the mean annual expenditure per household member was birr 819.61. The average food expenditure was lower for ACSI clients compared to the Regional and National level. *"With no price adjustment, the level of expenditure used as absolute poverty indexes set at national level by the BoFED was Birr 1,075 for 1999/2000" (BoFED, 2008).* This is higher than the average found for ACSI clients in the survey. Majority of the clients' per capita expenditure was below the absolute poverty indexes. This shows that the clients of ACSI are poor.

4.2.2.2. Asset Ownership

The ownership of assets especially rural clients, mainly livestock, before and after joining ACSI has been assessed. As per the data obtained from the sample responses, the average cattle ownership was lower for ACSI clients but the ownership increased after joining the institution. The average ownership of cattle before and after joining ACSI is seen in the following table:

Types of cattle	Before Member of ACSI	After Member of ACSI
Ox	0.91	1.78
Cow	1.57	1.69
Sheep/goat	7.60	7.68
Donkey	0.27	0.49
Mule/horse	0.12	0.37

NB. All the values on the table are on average.

Table 2: cattle ownership of clients

From the sample respondents 49.7% had none or one ox; 34.2% and 16.1% owned two oxen and above two oxen respectively. As it was seen in the above table that, the average cattle ownership was increased after the clients is using the services of ACSI. This indicates that ACSI is helping the rural poor to have their own cattle for farming activity.

When we see the ownership of land, 98.4% of rural clients of ACSI own land. It was only 1.6% of clients who did not have land. The average land holding which is their own land was 2.45 hectare per household. But there are some households who farm lands by lease/rent from other individuals. Those who practiced farming on rented or leased farmland were only 16.3% with 0.43 hectare on average. In addition, 54.2% of the respondents of ACSI has radio/tape recorder while the remaining 45.8% did not have.

In general, as the information obtained from the interview with the officers and the survey of clients, asset ownership by the clients of the institution is lower but showing as increasing trend from year to year.

4.2.2.3. Housing and Utilities Conditions of clients

From the total sample 51.3% of clients live in a single house, 33.4% has more than on house and the remaining 15.3% has no house (living in a rent houses). The quality of the houses is poor because almost all houses are constructed from mad, wood and grass roofs. 72.5% of the clients of ACSI have no access to electric supply. As a substitute people mostly used kerosene lamps as a lighting source in rural areas. Firewood, Dung and Charcoal were the primary source of cooking fuel for ACSI clients. For more than 70 % of ACSI clients the major sources of drinking water were streams, rivers, ponds and open access common wells.

From this we can conclude that the majority of the clients of the institution have less access of facilities. In addition the clients have limited infrastructure facilities like road, school nearby to send their children and access to market their products.

4.3. Customers' feedback on service delivery of the institution

In this sub-section the customers' feedback on loan delivery and utilization, employees' service delivery and customer handling (treatment) and customer rating on interest rates has been assessed and presented.

4.3.1. Loan Delivery and Utilization

No	Sources	In No	In %age
1	Friends and relatives	82	45.49%
2	Local money lenders (usury)	55	31.11%
3	Cooperatives	6	3.33%
4	Credit and saving schemes	5	2.77%
5	Banks	2	1.11%
6	NGOs	3	1.43%
7	Churches/Mosques	3	1.43%
8	No Credit Before	24	13.33%
	Total	180	100%

Table 3: Sources of credit before member of ACSI

As shown on table 3 above, the main sources of credit before the establishment of ACSI were credit from friends and relatives (45.49%), followed by local money lenders (usuries) (31.11%). The other sources of credit accounts limited percentage. That is cooperatives, credit and saving schemes, NGOs, Churches/Mosques and Banks cover 3.33%, 2.77%, 1.43%, 1.43% and 1.11% respectively. In addition, the clients with no credit experience before ACSI account 13.33%.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1 year	6	3.3	3.3	3.3
	1-2 years	44	24.2	24.2	27.5
	3-4 years	57	31.7	31.7	59.2
	5-7 years	36	20.0	20.0	79.2
	Above 7 Years	37	20.8	20.8	100.0
	Total	180	100.0	100.0	

Table 4: period clients stayed as a member of ACSI

As it is clearly shown in the above table 3.3% clients stayed as a member of ACSI for less than 1 year, 24.2% stayed 1-2 years, 31.7% stayed from 3 to 4 years, 20% stayed for 5 to 7 years and 20.8% stayed above 7 years as members of ACSI. As we can see the percentage the majority of the clients are using the services of institution for a long period of time after its establishment. This indicates that the institution is their first preference for credit as well as saving facilities. 57.5% of the respondents prefer group collateral lending system and the remaining 42.5% prefers individual lending by holding their land as collateral.

As per the rule of the institution the loan size through group collateral lending system ranges from 300 to 5000 birr and through asset collateral i.e. individual loan the loan size ranges from 5001 to 3,000,000 birr (*NBE, directive No. MFI/5, 1996).* As the data obtained from the survey the majority (93.56%) of the clients take loan which ranges from 750 to 5,000, 6.44% are those borrowers who borrow up to 200,000 birr from the institution by giving their car and house as a collateral. This indicates that the institution provides a loan amount as per the need of the clients. The minimum amount to borrow money from the institution is 300 birr which anyone can borrow easily. As source indicated as the loan size is becoming lower and lower the institution outreach performance is increasing *(Ledgerwood, 1999).* The loan advances were both on term and installment basis. 50% of the clients prefer installment loan and the remaining half of the clients prefer to take loan in term basis.

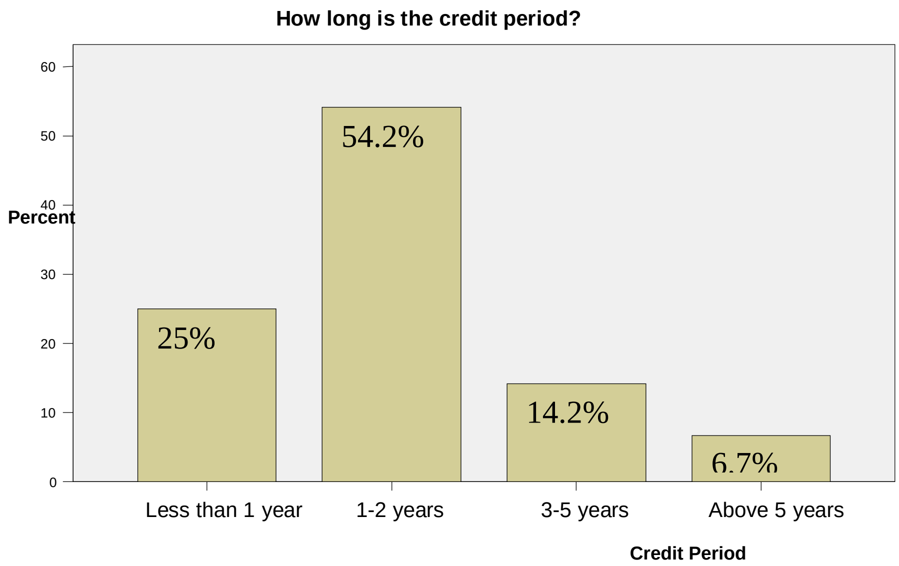


Chart 6: Credit period

As the chart indicated 54.1% of respondents took a loan which have a credit period of 1-2 years. Credit period less than one year, 3-5 years and above five years cover 25%, 14.2% and 6.7% of the respondents respectively. This indicates that most of the clients of the institution prefers loan which is repayable within one to two year periods.

More than half (55%) of the clients took loan for farming and related activities, the remaining 45% clients took loan for activities other than agriculture such as handicraft, service and purchase of fixed assets/equipments. As per the rule of the institution no loan is granted for consumption purpose *(ACSI, 2009)*. It was only 10.8% of respondents who did not utilize the loan amount for the intended purpose. The main reason that the respondents gave is that the loan size was small to utilize in time as intended. In relation with this 62.5% the respondents indicated that they took a loan amount which is less than they requested. Therefore, the loan size was not sufficient for the intended purpose. Because of this sometimes clients may shift to another purpose when the loan approved is below the requested amount. It is obvious that, some clients request larger loan amounts beyond their capacity at their first request. Information from the group members input and the institution's credit and saving committee is important in this situation to test the capability, debt paying ability and discipline of the client before approval of the loan. As it was indicated by the officers and approved by the clients it took 3-5 days to get credit. But borrowers are expected to repay the amount they took before the next loan is given *(ACSI, 2004)*. This shows that how the institution is fast in its client selection and credit approval system. And also 80.8% of the respondents responded that delivery of credit was timely, but it is late for the remaining 19.2% of the respondents.

4.3.2. **Service delivery and Customers Handling (Treatment) of Employees**

Majority (62.9%) of clients learnt about the institution from their friends' and relatives for the first time. The remaining 31.6% got the information from clarification given by the employees of ACSI and 5.5% of the clients are members of the institution as a result of information obtained from advertisements on public media like radio advertisings. As the above percentage indicated that, the promotion was limited to the staff and the community networks. This way of promotion is acceptable as there is high demand for the services and poor communication media in the rural Amhara Region at the moment.

In addition to the credit and saving service 7.1% of the clients got pension payment services, 5.4% used local money transfer facility of the institution and 2.6% of the respondents indicated that they are using micro insurance services provided in addition to the credit and saving services.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 5 km	48	26.7	26.7	26.7
	5-10 km	72	40.0	17.5	44.2
	11-15 km	32	17.5	40.0	84.2
	16-20 km	16	9.1	9.2	93.3
	Above 20 km	12	6.7	6.7	100.0
	Total	180	100.0	100.0	

Table 5: distance of the sub-branches from the client's resident

From the above table analysis we can see that 40% of the clients are expected to travel 5 to 10 km from their home to the sub-branch offices. Additionally, 26.7%, 17.5%, 9.1% and 6.7% of the clients are expected to travel below 5 km, 11-15 km, 16-20 km and above 20 km respectively.

This implies that the institution is better in reaching the rural poor by opening sub-branch offices, which is fair compared to accessibility of other public services and economic infrastructure in the rural Amhara Region. There are field workers who travel to the home of the poor people for assessment and follow up. This ease of access to the sub branches reduces transaction costs to the poor.

Employees' customer handling and treatment

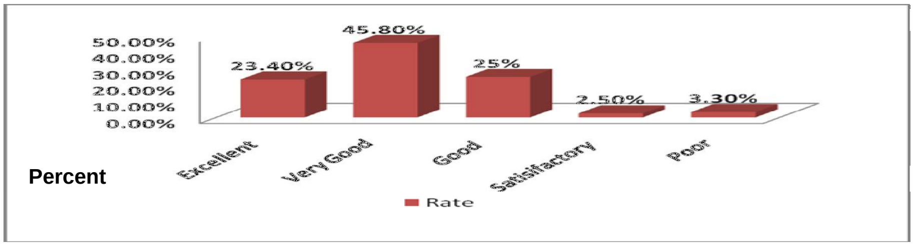


Chart 7: Rate of employees' customer handling and treatment by clients

As it is clearly seen from the above chart that 45.8% of the respondents rated employees customer handling and treatment as very good. The remaining 25%, 23.4%, 2.5% and 3.3% of the respondent indicated that employees are good, excellent, satisfactory and poor in threatening the clients respectively. This shows that the employees are committed to their work and have better customer handling method both in selection of clients as well as provision of services. In relation with this 20.8%, 41.7%, 30%, 4.2% and 3.3% of the respondents rated that the field workers proper and timely follow-up of credit given is excellent, very good, good, satisfactory and poor. This implies that the institution gave due consideration to follow the clients to check whether the loan given was used for the intended purpose or not.

4.3.3. Customers rating on interest rates

The interest rate charged by ACSI on loan is 18% for both installment and term loans which is somewhat higher than the interest rate of banks (11.5%, CBE). This interest rate percentage is set by the Board of Directors of the institution as per the rule of the National Bank of Ethiopia. *"The interest rate to be charged on loans and advances extended by a micro-financing institution shall be determined by the Board of Directors of each micro-financing institution" (NBE Directive No.MFI/13, 2002)*. In addition, the institution opened microbank to provide small banking activities for the poor. The microbank charges 10-14% rate of interest for its loans (ACSI, 2009). Most of the clients' compare the interest rate charged by ACSI with informal lenders especially with local money lenders (usuries). As per the information obtained from the respondents, usuries lend money with 20% rate of interest per month. Having these points in mind, the rate of interest on loan seems fair for the majority (40%), low for 23.3%, high for 22.5%, very high for 10%, and very low for 4.2% of the respondents. From this we can say that the institution charged fair interest rate on loans.

A penalty of 2% is charged on past due balances. The penalty is calculated on the principal amount past due. If there is no hope of securing a repayment of a loan after all efforts has been made, the group members of the individual are responsible and the credit will be written-off once, the case is taken to court and the client's inability is decided by jurisdiction *(ACSI, 2009)*.

When we see the interest rate paid for saving, it is 5% for compulsory saving and 5-6.25% for voluntary savings which are compounded monthly *(ACSI, 2009)*. Out of the total 180 sample respondents for 27.5%, 25.8%, 22.5% 12.5% and 11.7% of the respondents the rate of interest paid for both compulsory as well as voluntary saving is high, fair, low, very low and very high respectively. The institution pays better interest for compulsory saving as compared with banks (i.e. 5% per annum). This indicates that it gives more emphasis for voluntary saving than compulsory saving. It initiates voluntary savers by paying more interest for them. As per the majority of the respondents indicated (i.e. 75.8%) the institution pays better interest for the amount of money saved. But there is withdrawal limitation imposed on compulsory saving. the rule of the institution says *"Compulsory saving account holders have no right to withdraw the amount on their saving account until the moment they has repaid all of debts they taken. Because compulsory saving account serves as a guarantee for the institution in addition to group collateral." (ACSI, 2004)* In general, the clients rated the overall service delivery of the institution as shown in the chart below.

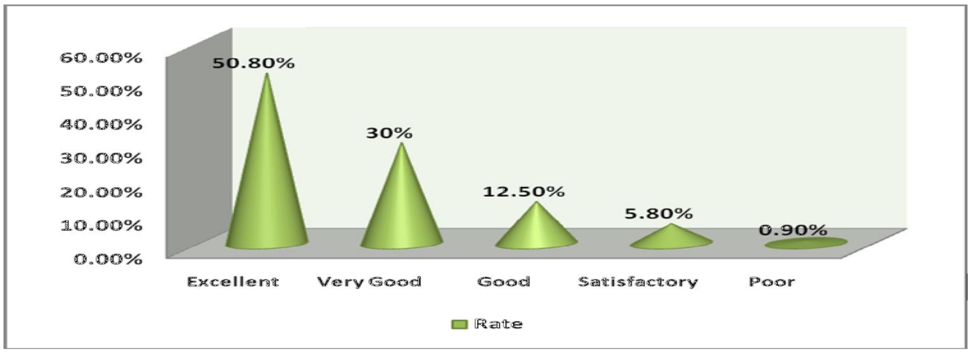


Chart 8: Rate of overall service delivery of the institution by clients

As we can easily observe from the above chart more than half of the respondents (50.8%) rated the institution overall service delivery as excellent and the remaining 30%, 12.5%, 5.8% and 0.9% rated it as very good, good, satisfactory and poor in its service delivery. From the analysis we can say that, even if there are some areas that need improvement, the institution got acceptance from the public in its efficiency and effectiveness in service delivery and customer handling.

4.4. Training and development in the institution

The institution have formal training program for both employees and customers in different time. If the employee is a newly hired employee in the office he/she must take the training like how to perform the activities he/she is assigned for, credit and saving related issues, psychological training how to handle customers, and the rule and regulations of the institution. In addition to this if the new employee is hired as a field worker he/she must take additional training such as how to form groups and assessment of client's socio-economic conditions. For the remaining employees the institution provides continuous training as per the requirement to improve employees' productivity level more and more. In addition, the institution pays half of college payment for its employees for further education and development. But the courses that the employee learns should be directly related with the job he/she assigned for and its importance must be approved by the manager of the sub-branch office. The institution also gives training for its customers in the area of credit and saving. In addition, the training was on introducing the institution, its services and products, group and centre formation, duties and responsibilities as a group member, importance of savings, and others. The training smoothes the information gap between clients and the institution. These training also give the clients to be active in the service provision activity of the institution.

4.5. Credit and saving outreach of ACSI

Indicators/years	**2005**	**2006**	**2007**	**2008**	**2009**
Credit Outreach					
No. of sub-branches (Offices)	189	197	196	206	198
Total Number of Staff	1,915	2,065	2,363	2,590	2,732
No. of Active borrowers	434,814	536,804	597,723	710,576	679,518
% Percent of women borrowers	38.58%	49.98%	51.21%	59.81%	63.52%
Loan portfolio, gross in million	446.97	687.38	1,016.33	1,548.90	1,656.86
Average loan balance per borrower	1,027.96	1,280.52	1,700.35	2,179.78	2,438.29
Savings Outreach					
Voluntary deposits in million	144.37	219.18	348.26	218.64	678.50
Compulsory deposits in million	95.03	146.59	217.25	346.02	309.60
Total Deposit in million	239.41	365.77	565.52	829.51	988.10
Number of depositors	496,535	622,079	709,553	1,085,780	1,432,623
Average deposit balance per depositor	482	588	797	764	690
Deposit to Loan Ratio	53.56%	53.21%	55.64%	53.56%	59.64%
TotalNo.of active clients	768,834	971,020	1,157,891	1,435,067	2,607,134
% of Kebeles in the Region covered	2358 (70.85%)	2627 (78.9%)	2783 (83.6%)	2862 (86%)	2953 (88.7%)

Source: Financial and Performance Data for ACSI (2005-2009) and ACSI (2005-2009)

Table 6: Credit and saving outreach of ACSI

As of the end of 2009, shown on Table 7, ACSI has given an employment opportunity for more than 2,700 staffs in 198 offices. It has been able to cover 2953 kebeles of the region, which is 88.7% of the whole region. The number of active borrowers and depositors of ACSI increased from 434,814 to 679,518 and 496,535 to 1,432,623 respectively and organized in 123,767 groups and 6,547 centers. The number of savers increased more than twice. In addition percentage of women borrowers has shown an increase from 38.58% (2005) to 63.52% (2009). This indicates that poor female group of people are the major target of the institution. Since its establishment, there is an increase both in terms of loan portfolio and average loan balance from year to year. Loan portfolio has increased from Birr 446,970,605 in 2005 to 1,656,863,562 in 2009 (270.69% increase). In addition, the average loan balance per borrowers also increased from birr 1,027.96 in 2005 to birr 2,438.29 in 2009 (137.2% increase). This indicates that the depth and breadth of outreach of the institution is good.

ACSI has mobilized net savings of birr 988,108,227 in 2009 compared to 239,410,575 in 2005 (312.73% growth) both in voluntary and compulsory savings. This increase in saving mobilization helps the institution to finance its loan portfolio from saving and being sustainable enough. In fact, this shows an encouraging achievement on savings mobilization as well as a need to do more so as to cover all loan funds from savings. The deposit to loan ratio also increased from 53.56% in 2005 to 59.64% in 2009. This indicates that more than half of the institution's loan portfolio comes from deposited money. Hence, the growth of loan portfolio was higher than the increase in savings which needs more effort to increase saving from public to support the loan portfolio.

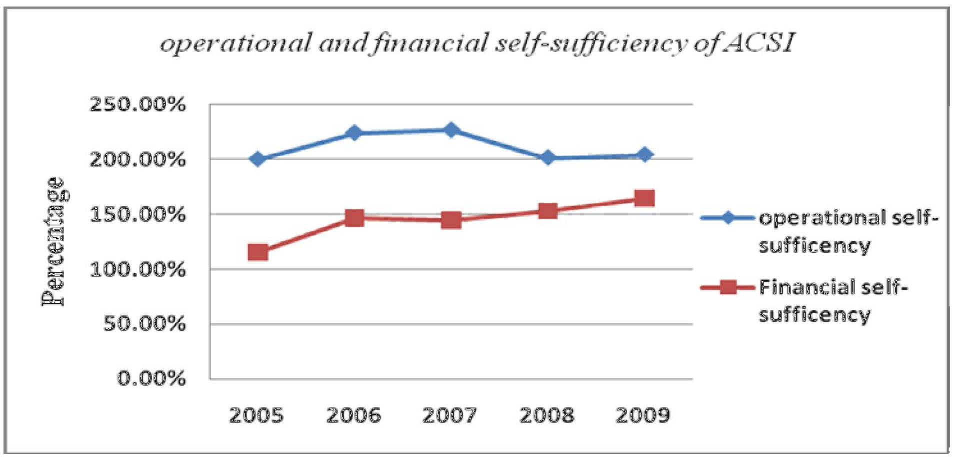
The average loan and savings balances were birr 2,702 and 1,206 for Africa and birr 1,540 and 1,082 for East African firms respectively (*Lafourcade et al., 2005).* ACSI had the average loan and deposit balances of birr 2,438.29 and birr 690 respectively in 2009. From this we can say that when compared with other African MFIs, the Average loan balance per borrower and average deposit balance per depositor of ACSI was the lower in amounts.

4.6. Sustainability performance of the Institution

Now a days, ensuring sustainability to continue as a going concern in the financial market is a hard obstacle to the microfinance industry. In this sub-section the researcher examined the institution's sustainability position by giving a great emphasis on its operational and financial self-sufficiency ratios. In addition, productivity, efficiency, profitability, financing and portfolio quality performance of the institution are covered in this sub section.

Operational and Financial self-sufficiency of ACSI

Operational self-sufficiency refers to the firm's ability to generate sufficient revenue from operations to cover all direct costs (i.e., operating expenses, financing costs, and loan losses). Being unable to reach operational self-sufficiency results in erosion of the net worth of a company over time and waiting for donor funds to keep on operating. Financial self- sufficiency measures the firm's ability to generate revenue sufficient to cover both direct (operating, financing, and loan losses) and indirect (cost of capital) expenses of doing business. Measure of financial self- sufficiency below 100% indicates dependency on donor funds or subsidies (*Ledgerwood, 1999).* Both the operational and financial self-sufficiency ratio of ACSI is shown in the chart below.



Source: Financial and Performance Data for ACSI (2005-2009)

Chart 9: operational and financial self-sufficiency of ACSI

As shown on chart, ACSI is going up both in operational and financial sustainability since 2005. So we can say that since 2005, ACSI has started obtaining operational income adequate to cover its operating costs. The financial self-sufficiency ratio shows an increasing trend from 115.35% to 164.39%. In all the five operating years, ACSI's financial self-sufficiency is above 100%, this demonstrated that ACSI was financially self-sufficient. From the above analysis we can say that the institution covered not only direct costs (operating costs, loan losses, and interest on savings and bank loans) but also indirect cost like cost of capital on loans and on allowance and absorbed inflation impacts on its financial assets.

To sum up, on average ACSI is operationally and financially self-sufficient at around 211.16% and 144.58% respectively over the five year period. This indicates that the institution has the ability to stand in its leg without donors fund or the institution's subsidy dependent is lower. Even the general manager of the branch office said that *"if we get donation from abroad it helps us, but if not we will cover our costs from our own operational income sources like saving and profit."*

4.6.1. Productivity and Efficiency

Measuring the productivity and efficiency is helpful to assess the capability of MFIs to generate revenue and resource use ability to wealth maximization. 'Provision of financial services and products at the minimum cost possible' is the proverb of efficient service delivery *(Befekadu, 2007)*. The productivity ratio in the case of MFIs focuses on the capacity of staffs and loan officers to serve as many clients as possible. The efficiency ratios measure the operational costs of service delivery. Operating efficiency ratio measures the ratio or percentage of operating and personnel expenses relative to loan portfolio *(Bamlaku, 2006)*. The lower operating expense ratio indicates the lower expense relative to portfolio outstanding. Usually costs of credit disbursement are higher than costs of accepting saving deposits. The efficiency ratios include operating costs ratio, cost per unit of currency lent, and cost per borrowers. As a base, operating cost ratios of 13% to 21% is a good indicator for successful MFIs *(Ledgerwood, 1999)*.

Indicators	2005	2006	2007	2008	2009
Borrowers per Staff	227	260	253	274	249
Borrowers per loan officers	360	370	386	412	385
Depositors per staff member	259	301	300	419	524
Operating expense/ loan portfolio	6.15%	4.94%	4.58%	5.55%	3.92%
Personnel expense/ loan portfolio	4.40%	3.39%	3.10%	2.75%	2.70%
Cost per borrower	Br. 59	Br. 58	Br. 69	Br. 109	Br. 91
Personnel allocation ratio	63.08%	70.22%	65.59%	66.64%	64.53%
Operating Cost Ratio	6%	7.1%	6.01%	4.2%	4%
Cost per Unit of Currency Lent	0.05	0.06	0.05	0.03	0.04

Source: Financial and Performance Data for ACSI (2005-2009)

Table 7: Productivity and efficiency of ACSI

From the above table we can identify that number of active borrowers per staff shows an increasing trend from 227 in 2005 to 249 in 2009. In addition the number of depositors per staff members increased from 259 to 524 from the year 2005 to 2009 (i.e. 102.3% increase). This indicates that the people habit towards saving is increasing and the institution ability in saving also increasing from year to year. Based on best practice for MFIs worldwide, average number of clients per loan officer ranges from 300 to 500 whatever the type of lending methodology employed. African and East African firms have been able to serve only 143 per staff and 132 borrowers per credit officer *(Lafourcade et al., 2005)*. But ACSI has been able to serve 249 per staff and 385 per loan officers.

The personnel allocation ratio of ACSI was 64.53% in 2009 which means the institution human resource allocation is good. This indicates that the instruction is, by far, the most productive in terms of its human resources compared to African and East African firms. Hence, it is possible to say that ACSI is more efficient than other African MFIs in the industry. The cost per birr lent was five cents in 2005 coming down to four cents in 2009. The average cost per borrower for African and East African MFIs is Birr 634 and Birr 510 respectively *(Lafourcade et al., 2005)*. For ACSI the cost per borrower is below Birr 100 except 2008 (109), this indicate that the institution is effective in management of operating costs. But the cost per borrower increased because of huge increase in the number of borrower is shown from year to year. The operating cost ratio has reduced from 6% in 2005 to 4% in 2009. The decrease in both operation expense per loan portfolio (6.15% to 3.92%) and personnel expense per loan portfolio (4.40% to 2.70%) from the year 2005 to 2009 indicates that the institution is in a good position to control its operating as well as personnel expenses in comparison with the amount of loan portfolio changes. The increase in efficiency greatly contributes to profitability and then to sustainability. Additionally clients are benefited whenever there is reduction in cost of service delivery if the institution is to set a limit on its target level of financial self-sufficiency and willing to transfer part of its gain to clients.

To sum up, there is an increase in productivity and efficiency of employees accompanied by reduction in costs of disbursing loans which is favorable to institutional sustainability. ACSI is much-admired for its reliance on internally mobilized savings to finance its portfolio and efficient service delivery at the lowest cost possible compared to others in the industry. It achieved good efficiency and effectiveness with low risk having better future prospects *(MicroRate, 2005)*.

4.6.2. Profitability

Profitability indicators measure financial performance of a firm over a period of time. It is useful for both internal management and external stakeholders to assess profitability of the business. To show the profitability of the institution ROA, ROE, yield on portfolio, and profit margin ratios are used.

Return on assets (ROA) measures the average net income earned on a single currency owned and indicates the kind of return the assets are generating. *High return implies good utilization of assets. Return of Equity (ROE)* refers to the maximum return available to shareholders. The ROE gives the rate of return earned on net worth or equity invested. *Higher return implies happy shareholders or owners. Yield on Portfolio* measures the percentage of net income earned for every birr in portfolio.

Yield measures ultimate profitability. *The higher the ratio, the more profitable each currency lent (Ledgerwood, 1999).*

Most of the time the highest income source for MFIs is their portfolio where as the major source of expenses are operating expenses. ACSI earns financial revenues from loans and other financial services in the form of interest income, penalties, payments from local money transfer service, commissions, and other sources like investment income. In addition the institution's financial activities also incur costs of doing business such as operating expenses, financing charges, and loan losses due to default etc. Profitable institutions generate greater revenue that exceeds total expenses. The profitability measures of ACSI are shown in the following table:

Indicators	2005	2006	2007	2008	2009	Mean
ROA	6.49%	7.94%	8.09%	9.06%	9.61%	7.7%
ROE	19.75%	25.63%	28.78%	36.45%	27.64%	27.65%
Yield on gross portfolio (nominal)	17.81%	17.94%	17.91%	18.95%	17.94%	18.11%
Net Profit in million	40	61.7	89.4	140.7	152	
Profit margin	49.99%	55.34%	55.83%	57.98%	59.02%	54.03%
Interest Income/Total Income	87.7%	91.66%	94.7%	93.23%	91.83%	91.82%
Donation/Total Income	8.06%	4.44%	2.34%	8.45%	0	
Operating Expense to Total Expense	68.52%	61.04%	57.18%	48.54%	43.54%	55.76%

Sources: Financial and Performance Data for ACSI (2005-2009) and ACSI (2005-2009)

Table 8: Profitability measures of ACSI

As it was presented on table 9, on average more than 90% of the total income of ACSI was derived from interest earned on loan portfolio. From 2005 to 2009, ACSI has been earning increasing net profits from birr 40,041,184(2005) to birr 152,019,746 in 2009 (279.66% increase within five years). In addition, the profit margin of the institution shows an increasing trend from 2005(49.99%) to 2009(59.02%). Out of the total expenses of the institution operating expenses cover 68.52% in 2005 but shows a decreasing trend in the remaining years to 61.04%, 57.18%, 48.54% and 43.54% from 2006 to 2009 respectively. From this we can say that the institution cost control method shows improvement from year to year, and this helps the institution to secure its sustainability without donors support by increasing its profitability. In addition, we can see that the contribution of donations to the total income of ACSI showed a decreasing trend i.e. 8.06% in 2005 to 0% in 2009.

In the same table above, ACSI experienced a higher percentage of ROA. A birr in assets earned 6.49 cents in 2005 and increased to 9.61 cents in 2009. In addition, a birr invested in equity has generated 19.75 cents in 2005. From 2006 to 2008 the institution ability to earn by investing was around 26cents, 29cents and 36cents respectively. But in 2009 it was declined to 28cents.

When we see the yield on portfolio, it shows an increasing trend from 2005(17.81%) to 2009(17.94%). But there are ups and downs in the mid years. This indicates that a birr lent earned an interest income of around 17.81 to 17.94.

In general, the average ROA, ROE and yield on portfolio over the five year were 7.70%, 27.65% and 18.11% respectively. Therefore, ACSI is more profitable institution. These results are attributed to higher efficiency and best portfolio quality.

4.6.3. Financing or Capital Structure

The sources of funding for ACSI are shareholders equity, retained earnings, donated equity, commercial borrowings, subsidized liabilities, and savings. As indicated on Table 11, ACSI funds 26.26 % of its assets with equity in 2009. Savings are the main source of liabilities. Deposits account for 59.64% of total liabilities.

Indicators	2005	2006	2007	2008	2009
Equity/asset ratio	32.36%	29.98%	26.90%	23.53%	26.26%
Debt to equity ratio	2.09	2.34	2.72	3.25	2.81
Deposits to loans	53.56%	53.21%	55.64%	53.56%	59.64%
Deposits to total assets	40.42%	43.42%	44.33%	42.14%	42.26%
Gross loan portfolio to total assets	75.46%	81.60%	79.68%	78.68%	79.87%

Source: Financial and Performance Data for ACSI (2005-2009)

Table 9: financing/capital structure indicators of ACSI

There was a decrease in the share of equity from total assets in 2009 compared to 2005. The highest equity-to-asset ratio was 32.36% in 2005 due to higher donated equity. Having higher equity to asset ratio shows increase in stability of the institution *(Ledgerwood, 1999)*. The debt-to-equity or leverage ratio of the institution is 2.09 and 2.81 in 2005 and 2009 respectively. This means the total debt of the company is two times of its equity. There is an increase in gross loan portfolio to total assets ratio from year to year. It was 75.46% (2005) of total assets in loan portfolio that increased to 79.87% in 2009. This shows there is effective utilization of assets in the institution to generate interest income. On the other hand deposits finance more than 40% total assets for the five years. The share of deposits in financing the loan was increasing from 53.56% (2005) to 59.64% (2009). This indicates that more than 50% of the portfolio is financed through deposits mobilized. African MFIs fund only 25% of assets with equity which implies that they are highly leveraged compared to ACSI (26.26%) in 2009. deposits account for 72% of loans for African firms but only 59.64% in the case of ACSI *(Lafourcade et al., 2005).*

4.6.4. Portfolio Quality

The major productive asset of ACSI is its loan portfolio. Thus, portfolio quality refers to the health of this productive asset and the risks attached to it. The portfolio quality is detrimental to the institutions current performance as well as future prospect in generating higher revenue and better outreach to the poor. Repayment rates, arrears rate, loan loss, and portfolio at risk ratios are indicators used to assess the portfolio quality *(Ledgerwood, 1999)*.

Portfolio at risk (PAR) is a better indicator or measure of risk associated with the portfolio and it includes any remaining balance of loans infected with arrears including the arrears balance itself. In other terms, the calculation takes into account outstanding balance of loan amounts that have past due amounts. The PAR helps to see the real picture of the risk of delinquency particularly in credit terms with small loan payments over a long credit period. Loan losses are part of the costs of doing business. It measures the amount of loans written-off or cancelled from accounting records as uncollectible during a given accounting period when the loans do have little hope of collection in the future.

Portfolio quality of ACSI was, in the words of MicroRate, "Excellent" and "one of the best MicroRate has seen in Africa" *(Microrate, 2007)*. However, the credit terms that were mostly term loans have contributed to such outstanding performance when repayments were to be made once.

Indicators	2005	2006	2007	2008	2009	Mean
Repayment Rates	99.19%	99.26%	99.35%	99.2%	99.6%	99.12%
Arrears Rate	0.81	0.74	0.65	0.80	0.4	0.77
Portfolio at Risk > 30 Days Ratio*	1.90%	1.55%	1.27%	1.35%	3.80%	1.97%
Loan Loss Ratio	0.35	1.3	0.65	0.51	0.32	0.63

Sources: *PAR ratios are taken from MicroRate (2007), Financial and Performance Data for ACSI (2005-2009): *Table 10: portfolio indicators of ACSI*

Portfolio quality of ACSI based on its PAR ratio was 1.97% on average. It is the best as compared to the global average, African and East African PAR values of 5.2%, 4%, and 4.8% respectively as of 2005 (*Lafourcade et al., 2005).* As a general indicator, loan losses of above 2% annually show a negligence problem (*Ledgerwood, 1999*). The loan loss of ACSI have become reduced which shows the reduction in non-performing loans. i.e. from 0.35 (2005) to 0.32(2009). From 2005 to 2009 ACSI has been able to maintain an excellent repayment rate at an average of 99.12%. The arrears rate was below 1% of its loan portfolio. This indicates that the institution has a smaller risk of loan not to be collected in the future. Such outstanding performance is hard to achieve even in conventional banks backed by huge collaterals having a few credit clients but a bulk of credit balances. This effective performance of ACSI might be attached by proper client selection, follow-up and monitoring both by the staff and credit and saving committee, credit discipline and profitability of clients.

4.7. <u>Trade-off between outreach and sustainability</u>

After investigating outreach and sustainability of ACSI let's see how these two schemes extract each other. As different scholars identified, Sustainability and outreach are two long term goals that microfinance institutions eventually strive to achieve *(Ledgerwood, 1999).* There are arguments that there is a trade-off between reaching the poor and becoming profitable rationalizing that high number of clients (breadth of outreach) with small loans will lead to high cost of lending, thereby, lead to reduction in profit. There is, however, a creative tension between these two imperatives. On the one hand, if "increasing outreach" is taken to mean "more clients from a similar demographic", then "outreach" and "sustainability" are effectively identical terms. On the other hand, if "increasing outreach" is taken to mean "targeting hard-to-reach clients" such as people living in remote areas, then "outreach" and "sustainability" are effectively competing terms. Reaching clients in remote areas is relatively expensive, which makes the microfinance program less efficient and therefore less sustainable. Regarding this issues, ACSI have been achieved both outreach and sustainability simultaneously. The institution reaches/and reaching the poorest of poor people and as the same times its financial as well as operational self-sufficiency increases from year to year. The following table explains the correlation between outreach and sustainability of ACSI.

To show these achievements of ACSI, let's see the following relationship between number of active clients (breadth of outreach) and net profit (indicator of sustainability) as follows:

Correlations

		Number of active clients	Net profit
Number of active clients	Pearson Correlation (r)	1	.926
	Sig. (2-tailed)		.085
	N**	5	5
Net profit	Pearson Correlation(r)	.926	1
	Sig. (2-tailed)	.085	
	N**	5	5

***Number of years (2005-2009)*

Table 11: Correlation analysis of number of active clients and net profit of ACSI (2005-2009)

Correlation measures the degree to which two sets of data are related. Higher correlation value indicates stronger relationship between both sets of data. When the correlation is 1 or -1, a perfectly linear positive or negative relationship exists; when the correlation is 0, there is no relationship between the two sets of data *(Bowen & Starr, 1982).*

As can be observed from the above table, it is noted that number of active client (i.e outreach indicator) is positively and strongly correlated (r = 0. 926) with net profit (i.e. sustainability indicator). Therefore, it is possible to be profitable while serving/reaching large number of clients.

Even if it is a great challenge to build MFIs that reach the poorest of the poor and at the same time achieve institutional sustainability with operational and/or financial self-sufficiency, ACSI achieved it well. The main reason for its achievement both in outreach and sustainability are proper management, good client selection and follow-up, better strategies of reaching the poor while keeping the profitability of the institution, high but accepted interest rate charged on loans etc.

4.8. Performance rate of ACSI by MicroRate International Rating Agency

ACSI has been rated two times by MicroRate in 2005 and 2007 and ranked as “$\alpha-$”by MicroRate standards. This gave ACSI a label stated as a microfinance institution “striving to balance a clear and rational relationship among the social, financial, and operational considerations of sound microfinance practice as compared to an international set of similar companies and emerging standards of the microfinance industry”. As per the rating agency $\alpha-$ stands for institutions with good efficiency and effectiveness, low risk and good future prospects (Microrate 2005 & 2007).

CHAPTER FIVE

Summary, Conclusions and Recommendations

5.1. Summary of findings:

This study initially aimed to assess outreach performance, customers feedback about services provided, socio-economic conditions of the customers, and sustainability of ACSI in terms of operational self-sufficiency, financial self-sufficiency, productivity and efficiency, profitability, financing and portfolio quality. These objectives were accomplished in line with the research hypotheses stated. The researcher summarized the main point of the study findings as follows:

- All clients of ACSI are in a productive age group that ranges from 18 to 65 years and economically active.
- Most of the clients of ACSI are married with an average family size of 5.23. However, the clients of ACSI have larger family size compared to the two averages both at regional and national level. This may demand policy revision of incorporating family size when selecting clients for credit provision.
- Because of lack of availability of facilities nearby places of the clients of ACSI, majority of them are less literate, has no access to electricity, no safe drink water supply, lack of access to market their products and has poor housing quality. Most of them (55%) are engaged in farming activity with small land and lower asset ownership. Therefore, ACSI helps poor farmers who are engaged in farming and related activity and give loan to increase their farming productivity level.
- Almost all of the clients' per capita income as well as expenditure were below the absolute poverty indexes. These socio-economic conditions of the clients indicate that the majority of the clients of the institution are poor in every aspect.
- The major sources of credit for the clients of the institution before its intervention were informal money lenders which are friends/relatives and usuries that impose higher interest rate. 72.5% of the clients are using the services of the institution for a long period of time after its establishment (above 3 years). Sub branch offices were nearly located to rural villages compared to accessibility of other public services and economic infrastructure in the rural Amhara Region. (i.e. within 5 to 10 km range). In addition, there are field workers who travel to the home of poor people for assessment and follow-up. This ease of access to the sub-branches reduces transaction costs to the poor.

- Most of the clients of the institution prefers loan which is repayable within one to two year periods in group collateral lending system. The maximum number of individuals included in a group is five to seven which is manageable. The credit and saving committee of the institution is responsible for approval of list of the group members, approval of loan amount for each individual and proper follow up in coordination with field workers.
- The loan size rages from 300 to 5,000 to group collateral lending system and 5,001 to 3 million for asset loans. 62.5% of the clients of the institution got loan which is lower than they requested. Therefore, the amount of loan is not sufficient for the intended purpose. This results in a shift in the purpose of loan by clients in the middle and decrease the effectiveness of the loan takers. Most of loans were for agricultural projects on term basis. As per the rule of the institution no loan is granted for consumption purpose. The interest rate on loan was 18% for group collateral loan system and 10-14% for microbank loans of the institution. And the rate is fair for the majority of the clients. In addition, the institution pays 5% and 5-6.25% rate of interest both for compulsory and voluntary savings respectively, and compounded monthly.
- Only 15.1% of the clients are using other services of ACSI other than credit and saving facilities. The institution provision of different types of services (the scope of outreach) is good but needs improvement in new product development. The respondents indicated that ACSI has better customer handling method both in selection of clients as well as provision of services. Both the employees' customer handling (treatment) and field workers proper follow-up are rated as very good by the majority of the clients.
- Products and services promotion was highly dependent on community networks and staff efforts which were acceptable compared to the high demand for financial services and poor communication media in the rural areas.
- The institution have formal training program for both employees and customers in different time. Almost all the trainings for customers are on credit and saving services issues of the institution which took 10 days on average.
- ACSI has given an employment opportunity to 2,732 staffs in 198 offices. It has been able to cover 2953 kebeles of the region, which is 88.7% of the whole region in 2009. In addition it serves more than 2.6 million clients. More than 1.6 billion birr has been disbursed with increase in average loan size. The expansion was not only in loan portfolio but also go along with aggressive saving mobilization as a permanent source of loanable fund. ACSI financed more than half of its portfolio from savings.

- Since 2005 ACSI has started obtaining operational income adequate to cover its operating costs. On average ACSI is operationally and financially self-sufficient at around 211.16%% and 144.58% respectively over the five year period. ACSI was among a few MFIs which were able to achieve the highest efficiency at the lowest cost per borrower. ACSI operated at the lowest operating expense ratio compared to other African firms in the industry. Such lowest operational costs did contribute to the attainment of operational and financial self-sufficiencies.
- Productivity per staff and per credit officer has grown over the years. There was also an increasing trend on portfolio. The operating cost per birr lent was as low as four cents in 2009. ACSI was the most productive in its human resource and operates at the lowest cost per borrower compared to other African and East African MFIs. Both number of active borrowers and depositors per staff shows an increasing trend from 2005 to 2009.
- There is an increase in productivity and efficiency of employees accompanied by reduction in costs of disbursing loans which is favorable to institutional sustainability. ACSI is much-admired for its reliance on internally mobilized savings to finance its portfolio and efficient service delivery at the lowest cost possible compared to others in the industry.
- The major source of income for ACSI was interest income. Operating expenses of the institution decreased from 68.52% in 2005 to 43.54% in 2009. From the study we can see that the contribution of donations to the total income of ACSI showed a decreasing trend i.e. 8.06% in 2005 to 0% in 2009. The average ROA, ROE and yield on portfolio over the five year were 7.70%, 27.65% and 18.11% respectively.
- The sources of funding for ACSI are shareholders equity, retained earnings, donated equity, commercial borrowings, subsidized liabilities, and savings. ACSI funds 26.26 % of assets with equity. Savings are the main source of liabilities. Deposits account for 60% of total liabilities. The average Debt-to-Equity ratio was 2.64.
- There is an increase in gross loan portfolio to total assets ratio from year to year. The share of deposits in financing the total loan portfolio was increasing.
- ACSI has a high portfolio quality. PAR as an excellent measure of portfolio quality indicated that it was at its best compared to the global average. The loan loss have become reduced which shows the reduction in non-performing loans. From 2005 to 2009 ACSI has been able to maintain an excellent repayment rate at an average of 99.12%. The arrears rate was below 2% of the industry average. In general, the study also identified no evidence of trade-off between outreach and sustainability, rather positive correlation was observed between them.

5.2. Conclusions

Based on the objectives and hypothesis of the study the researcher concluded the study as follows:

- The institution gives priority to woman for credit to make them free from long history of economic dependency with in home and in the society as a whole. ACSI believed that lending money for women is better than male because women are less extravagant and more responsible for saving and efficient use of money in the home than male. Therefore, the institution is in a better position to make women economically independent. These issues have a direct impact on the outreach performance of the institution.
- The institution has its own loan eligibility criteria to select among client for loan. As per hypothesis two, those customer selection methods influence outreach directly in determining the loan size, and approach of the poor.
- The institution is in a better position of depth and breadth of outreach to the poorest of poor rural and urban people in providing financial support and increase productivity level in the region and it is the first preference for credit as well as saving services for clients. Because the products of the institution are not much expensive to the customers.
- As a result of smaller amount of loan given for the borrowers, there is a shift in the purpose of loan by clients in the middle and decrease the effectiveness of the loan takers.
- There is higher portfolio concentration on a single sector, which is vulnerable to natural disasters and calamities.
- From the outreach aspect, the institution outreach has shown increment over the five years of the study with different rates of growth. It is also identified that ACSI reach the very poor, disadvantaged groups and woman clients in rural as well as urban areas.
- The institution has the ability to stand on its own leg without donors fund or the institution's subsidy dependent is lower. Therefore, as a supportive of hypothesis one, operational and financial self-sufficiency are positively related with sustainability of financial institutions in the long-run. It achieved good efficiency and effectiveness with low risk having better future prospects that indicates better length of outreach.
- The institution cost control method shows improvement from year to year, and this helps it to be sustainability without donors support by increasing its profitability. In addition, Cost of outreach is low for the institution.

- As per hypothesis three, the institution has a better efficiency and profitability level that helps it to secure its going concern. Therefore, profitability is helpful to secure sustainability in MFI.
- From sustainability angle, it is founded that ACSI is financially self-sufficient enough and its dependency on donors support was decreased from year to year. In addition, there is low risk of loan not to be collected in the future.
- Lastly, based on the experience of ACSI, institutional sustainability could be achieved while reaching the poorest sections of the society, that means both outreach and sustainability can be achieved simultaneously that supports hypothesis four of this study.

5.3. Recommendations:

In accordance with the result of the study the following recommendations are forwarded:

The loan size needs to be revised taking into consideration the purchasing power of birr at the current market prices of inputs to clients' businesses. In addition, family size and clients needs with the purpose of the loan should be considered to increase the outreach level.

The researcher recommend the institution to develop new loan products like educational loan (for those who send their children to school), housing improvement and expansion (in group collateral lending form) and emergency loans to fit the interest of the clients. In addition, the institution should also give especial attention to increase provision of other services like local money transfer, fund administration and micro insurance services.

Group based lending helps MFIs serve those who are so poor that they could not provide sufficient collateral for the loan they took. Therefore, improving group lending mechanism benefits both the institution as well as the clients.

Improve voluntary saving from the general public targeting people in urban areas with regular income and social institutions like "*Idir*" and "*Equb*" to make their deposits with ACSI. Saving is a suitable source of funds for loans and helps to be sustainable in the future. The institution should make every effort at its level to cover much of the loan fund from saving collected. ACSI should invest in other income generating areas to cover its expenses other than subsidy dependents. This helps the institution to strength its financial position and being sustainable in the future.

Lastly, to increase the achievement level both sustainability and outreach the institution should increase its revenue from operations and reduce its operating, financing and loan loss expenses.

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A/ Summary of Financial Data, Inflation and Foreign Exchange Rates

	Years				
Balance Sheet Accounts(in Birr)	**2005**	**2006**	**2007**	**2008**	**2009**
Total Assets	592,355,831	842,352,083	1,275,580,864	1,968,580,729	2,338,007,891
Loans	440,874,511	678,612,799	1,005,737,236	1,532,965,509	1,623,746,224
Net Worth	191,680,862	252,575,810	343,075,671	463,223,358	613,915,246
Total Liabilities	400,674,970	589,776,273	932,505,193	1,505,357,371	1,724,092,645
Savings	239,410,575	365,778,158	565,522,434	829,515,783	988,108,227
Income Statement Accounts(in Birr)					
Interest Income	65,008,732	98,684,346	149,285,407	238,509,360	269,368,812
Total Income	74,125,560	107,667,549	157,653,968	247,364,759	293,340,588
Interest Expense	9,411,654	14,836,907	26,552,568	49,388,603	62,448,705
Loan Loss Provision	1,318,785	3,065,691	2,681,162	5,521,367	19,126,527
Operating Expense	23,353,937	28,046,757	39,029,658	51,788,895	62,904,867
Total Expenses	34,084,376	45,949,356	68,263,388	106,698,866	144,480,098
Net profit	40,041,184	61,718,194	89,390,580	140,665,893	152,019,746
Donations	5,973, 687	4,781,376	3,672,309	2,162,048	0
Inflation, Lending Interest and Foreign Exchange Rates					
Inflation Rate	10.2	15.8	25.3	36.4	2.8
Foreign Exchange Rate(per USD)	8.71	8.89	9.84	10.33	13.67

Sources: ACSI (2005-2009) and National Bank of Ethiopia

B. Formulas used by the institution to calculate performance ratios

No.	Indicators	Formula
1	Repayment Rate	Amount Received/ Amount Due
2	Average loan balance per borrower	Gross Loan Portfolio / Number of Active Borrowers
3	Average deposit balance per depositor	Deposits / Number of Depositors
4	Deposit to Loan Ratio	Deposits / Gross Loan Portfolio
5	Operational self-sufficiency	Financial Revenue (Financial Expense + Net Impairment Loss + Operating Expense)
6	Financially self-sufficient	Operating Income (Operating Expenses + Financing Costs Provision for Loan Losses + Cost of Capital)
7	Borrowers per Staff	Number of Active Borrowers / Number of Personnel
8	Borrowers per loan officers	Number of Active Borrowers / Number of Loan Officers
9	Depositors per staff member	Number of Depositors / Number of Personnel
10	Operating expense/ loan portfolio	Operating Expense / Average Gross Loan Portfolio
11	Personnel expense/ loan portfolio	Personnel Expense / Average Gross Loan Portfolio
12	Cost per borrower	Operating Expense / Average Number of Active Borrowers
13	Personnel allocation ratio	Number of Loan Officers / Number of Personnel
14	Operating Cost Ratio	Operating Costs Average Portfolio Outstanding
15	Cost per Unit of Currency Lent	Operating Costs for the Period Total Amount Disbursed in the Period
16	ROA	(Net Operating Income - Taxes) Average Total Assets
17	ROE	(Net Operating Income - Taxes) Average Total Equity
18	Yield on gross portfolio	Financial Revenue from Loan Portfolio / Average Gross Loan Portfolio
19	Profit margin	Net Operating Income / Financial Revenue
20	Equity/asset ratio	Total Equity / Total Assets
21	Debt to equity ratio	Total Liabilities / Total Equity
22	Arrears Rate	Amount in Arrears Portfolio Outstanding or 1-Repayment Rate
23	Portfolio at Risk > 30 Days Ratio	(Outstanding balance, portfolio overdue > 30 Days + renegotiated portfolio) / Gross Loan Portfolio
24	Loan Loss Ratio	Amount Written-off in the Period Average Portfolio Outstanding for the Period

Sources: Financial and Performance Data ACSI (2005-2009) and ACSI (2005-2009)

C. Survey Questionnaires

Addis Ababa University
School of Business and Public Administration
MBA Program

Questionnaire to be completed by selected customers of the sample sub branches

Dear Respondents:

This questionnaire aims at evaluating the Outreach and Sustainability of the Amhara Credit and Saving Institution (ACSI). It is intended for academic purpose only for preparation of a thesis.

Your first hand information has a paramount value for me and your answers are fully confidential and create no harm to you. Put "X" for your answers on the space provided.

Thanks for your cooperation in advance.

Fekadu Yehuwalashet

Region 3__Zone__________________ Woreda____________ Name of the sub-branch___________

I. Socio-demographic characteristics of customers

1. Age

   Below 18 years ☐ 36-65 years ☐

   18-35 years ☐ Above 65 years ☐

2. Sex Male ☐ Female ☐

3. Marital Status

   Single ☐ widowed ☐

   Married ☐ Divorced ☐

4. Occupation

   Farmer ☐ Handicraft ☐

   Civil Servant ☐ Petty Trade ☐

   Daily Labourer ☐ Service Provider ☐

   Tailor ☐ if other, specify________________________

   If service provider is the answer for #4, what kind of service is that?_______________

5. Educational Level

   Illiterate ☐ 5-8 grade ☐

   Basic Education ☐ 9-12 grade ☐

   1-4 grade ☐ college and above level ☐

6. How many family members do you have? ________________________

II. Wealth Condition

1. What is/are your source of income?

   Farming ☐ Salary ☐

   If other, specify_____________________

2. How much is your monthly income? _______________
3. How much is your monthly expenditure for?

   Food ___________________

   Heath ___________________

   Clothing (yearly) _________________________

   Fixed Assets ____________________________

   Education (school fee) _______________________

4. What type of house do you have? ____________
5. Do you have Electricity supply? Yes ☐ No ☐
6. What is/are your primary cooking fuel source?

   Firewood ☐ Charcoal ☐ Dung ☐

   Kerosene/Gas ☐ Electricity ☐ if other, Specify_____________

7. What is your source of drinking water? _____________________
8. Do you have radio/tape recorder? Yes ☐ No ☐
9. Have you experienced going work with no food in a month's time?

   Yes ☐ No ☐

   If Yes, what is the reason? ____________________________________

Additional questions only for rural respondents

10. How many cattle do you have?

	Before joining ACSI	After joining ACSI
Ox	_________	__________
Cow	_________	__________
Sheep/goat	_________	__________
Donkey	_________	__________
Mule/horse	_________	__________

11. Land ownership in hectares

    Owned: Agricultural land ______________ Non-agricultural land ___________

    Leased/rented: Agricultural land ___________ Non-agricultural land ___________

III. Credit

1. Where did you get credit before becoming a member of ACSI?

   Friends and relatives ☐ Cooperatives ☐

   Local money lenders (usury) ☐ Credit and saving schemes ☐

   Banks ☐ NGOs ☐

   Churches/mosques ☐ Others sources ______________________

2. For how long have you been a member of ACSI?

   Less than 1 year ☐ 3-4 years ☐

   1-2 years ☐ 5-7 years ☐ Above 7 years ☐

3. For this year how much loan (money) you have borrowed from ACSI including any outstanding balance owed currently? _____________birr.

4. For what purpose have you taken the loan?

   Consumption ☐ Agriculture ☐ Animal fattening ☐

   Petty trade ☐ Handicraft ☐ Purchase of fixed assets/equipments ☐

   Purchase of oxen ☐ Bee keeping ☐

   Service ☐ Others (specify) ____________________________

5. Did you get the loan amount as you requested?

   Reduced ☐ As requested ☐ Larger ☐

6. Did you use the loan entirely for the intended purpose (as stated on the loan application)?

   Yes ☐ No ☐

   If No, why? ____

   And, how did you spend the remaining amount? _______________________________

7. How long is the credit period?

   Less than 1 year ☐ 1-2 years ☐ 3-5 years ☐ above 5 years ☐

8. Is the loan you take Term loan or Installment basis?

   Installment Loan ☐ Term Loan ☐

9. Does the loan reach you when you need it? Yes ☐ No ☐

   If No, what kind of problem you encountered? _______________________________

IV. Service Delivery

1. How do you learn about ACSI?

   From friends and relatives ☐ From advertisements on TV, radio, and newspapers ☐

   From information given by the employees of ACSI ☐

   If other, specify ____

2. What service you use in ACSI?

   Saving ☐ Micro insurance ☐ Fund administration (Pension) ☐

   Credit ☐ Local many transfer ☐ if other, Specify _____________

3. What type of lending you prefer? Individual ☐ Group ☐
4. How long it takes to get a loan? __________________?
5. How far is the sub-branch office from your village?

   Below 5 km ☐ 5-10 km ☐ 11-15 km ☐ 16-20 km ☐ above 20 km ☐

6. How do you rate employees' customer handling and treatment?

   Poor ☐ satisfactory ☐ Good ☐ Very Good ☐ Excellent ☐

7. Do the field workers select the customers for loan properly? Yes ☐ No ☐

   If No, what problem did u observed? ________________________________

8. How do you rate field workers proper and timely follow-up of credit given?

   Poor ☐ Satisfactory ☐ Good ☐ Very Good ☐ Excellent ☐

9. Do you get training form the institution? Yes ☐ No ☐

   If Yes, what kind of training is that?

   Credit and saving ☐ Literacy/Educational ☐

   Marketing ☐ Health Related ☐ If other, specify______________

10. How long is the training time on average? ______________
11. When frequent you held meetings?

    Per week ☐ per 15 days ☐ per month ☐ More than a month ☐

12. How do you rate the interest rate on loan?

    Very high ☐ High ☐ Fair ☐ Low ☐ Very low ☐

    What for saving?

    Very high ☐ High ☐ Fair ☐ Low ☐ Very low ☐

13. How do you rate the overall service delivery of the institution?

    Poor ☐ Satisfactory ☐ Good ☐ Very Good ☐ Excellent ☐

14. What improvement do you suggest for ACSI? _________________________________

D. <u>Translated questionnaires (Amharic Version)</u>

አዲስ አበባ ዩኒቨርሲቲ

የቢዝነስና ህዝብ አስተዳደር ት/ቤት

የቢዝነስ አስተዳደር ድህረ ምረቃ ኘሮግራም

ይህ መጠይቅ በተቋሙ ተጠቃሚዎች የሚሞላ ነው።

<u>ለመላሾች</u>፡-

ይህ መጠይቅ የአብቁተን ተደራሽትነና ቀጣይነት ለመገምገም የተዘጋጀ ነው። መጠይቁ ለትምህርታዊ አላማ ማለትም ለጥናታዊ ፅሁፍ ዝግጅት ብቻ የሚውል ነው። የእናንተ መልስ በምንም መልኩ እናንተን የማይጎዳና በሚስጥር የተጠበቀ ሲሆን ለእኔ ደግሞ በጣም ትልቅ ዋጋ ወይም ጥቅም አለው። ለመልስዎ የ"X" ምልክት በተሰጠው ሳጥን ውስጥ ያስቀምጡ።

በቅድሚያ ስለትብብራችሁ አመሠግናለሁ። ፍቃዱ የ`ላሸት

ክልል <u>3</u> ዞን --------- ወረዳ --------- የንኡስ ቅርንጫፍ ስም --------------------

III. <u>የደንበኞች የግል ሁኔታዊ መገለጫ</u>

1. ዕድሜ
   ከ18 ዓመት በታች ☐ ከ36-65 ዓመት ☐
   ከ19-35 ዓመት ☐ ከ65 ዓመት በላይ ☐
2. ፆታ ወንድ ☐ ሴት ☐
3. የጋብቻ ሁኔታ፡ የላገባ/ች ☐ አግብቶ/ታ የሞተችበት/ባት ☐
   ያገባ/ች ☐ አግብቶ/ታ የፈታ/ች ☐
4. የስራ ሁኔታ
   አርሶ አደር ☐ ዕደ-ጥበብ ☐ የመንግስት ሠራተኛ ☐ጥቃቅን ንግድ ☐
   የቀን ሠራተኛ ☐ አገልግሎት ሰጪ ☐ ልብስ ሰፊ☐ ሌላ ካለ _______________
   ከላይ ላለው ጥያቄ መልስዎ አገልግሎት ሰጪ ከሆነ ምን አይነት አገልግሎት እንደሚሰጡ ይጥቀሱ? ____
5. የትምህርት ደረጃ
   ያልተማረ/ች ☐ 1-4 ክፍል ☐ 9-12 ክፍል ☐

መሠረተ-ትምህርት ☐ 5-8 ክፍል ☐ ኮሌጅና ከዛ በላይ ☐

6. ምን ያክል የቤተሰብ አባል አለዎት? ________________________

IV. <u>የሀብት ሁኔታ</u>

1. የገቢ ምንጭዎ ምንድን ነው? ግብርና ☐ ደመወዝ ☐ ሌላ ካለዎ ቢገልፁ ___________
2. የወር ገቢዎ ምን ያህል ነው? _________________
3. ምን ያክል የወር ወጪ ያወጣሉ?

ለምግብ ___________________ ለጤና ______________________

ለልብስ /ዓመታዊ/ _____________ ለቋሚ ንብረት ___________________

ለትምህርት ክፍያ _____________ ሌላ ካለ ቢገልፁ ___________________

4. ምን አይነት ቤት አለዎት? ______________
5. የመብራት አገልግሎት ያገኛሉ? አዎ ☐ አላገኝም ☐
6. ምግብ ለማብሰል የሚጠቀሙበት የእሳት ምንጭዎ ምንድን ነው?

የማገዶ እንጨት ☐ ከሰል ☐ ኩበት ☐

ጋዝ ☐ መብራት ☐ ሌላ ካለ ይግለፁ _______________

7. የመጠጥ ውኃ ምንጭዎ ከየት ነው? ________________________
8. ሬዲዮ ወይም ቴቪ አለዎት? አዎ ☐ የለኝም ☐
9. በወር ውስጥ ምግብ ሳይበሉ ወደ ስራ የሄዱበት ጊዜ አለ? አዎ ☐ የለም ☐

መልስዎ አዎ ከሆነ ምክንያቱን ቢገልፁ? ___________________________________

<u>ተጨማሪ ጥያቄዎች ለገጠር መላሾች ብቻ</u>

10. ምን ያክል ከብቶች አለዎት?

	አብቁተ ተጠቃሚ ከመሆኖ በፊት	አብቁተ ተጠቃሚ ከሆኑ በኋላ
በሬ	___________	____________
ላም	___________	____________
በግ/ፍየል	___________	____________
አህያ	___________	____________
በቅሎ/ፈረስ	___________	____________

11. የመሬት ይዞታዎ በሄክታር

የራስ ይዞታ፡ የእርሻ መሬት ____________ የግጦሽ መሬት __________

ኪራይ፡ የእርሻ መሬት _____________ የግጦሽ መሬት___________

III. ብድር

1. የአብቁተ አባል ከመሆንዎ በፊት ብድር ከየት ያገኛሉ?

ከጓደኞችና ከዘመዶች☐ ከማህበሩት ☐ ከቤተክርስቲያናት/መስኪድ ☐

ከአራጣ አበዳሪዎች☐ ከብድርና ቁጠባ ተቋማት☐ ሌላ ካለ ቢገለፁ ____________

ከባንክ ☐ መንግስታዊ ካልሆኑ ድርጅቶች ☐

2. ለምን ያህል ጊዜ የአብቁተ አባል ነዎት?

ከ1 ዓመት በታች☐ ከ1-2 ዓመት ☐ከ3-4 ዓመት ☐5-7 ዓመት ☐

3. በዚህ አመት ምን ያህል የብድር መጠን (ገንዘብ) ከአብቁተ ተበድረዋል? -------------------

4. የወሰዱትን ብድር ለምን ያውሉታል?

ለፍጆታ ☐ ለግብርና ☐ከብት ማድለቢያ ☐

ለጥቃቅን ንግድ☐ ለእደ-ጥበ☐ ለቋሚ ንብረት መግ☐

ለበሬ መግዣ ☐ ንብ ለማነብ ☐ለአገልግሎት ☐ሌላ ጉዳይ ከሆነ ቢገለፁ___________

5. የጠየቁትን የብድር መጠን አግኝተዋል?

ከጠየኩት ያነሰ☐ የጠየኩትን ☐ ከጠየኩት በላይ ☐

6. የወሰዱትን የብድር መጠን ለታቀደው አላማ ያውሉታል?(በብድር መጠየቂያው መሠረት ይጠቀሙበታል)? አዎ ☐ አላዋልኩትም ☐

መልስዎ አላዋልኩትም ከሆነ ለምን እንደሆነ ይግለፁ?

____________________________.

የቀረውን የብድር መጠን ለምን አዋሉት? __________________________________

7. የብድር ጊዜው ምን ያክል ነው?

ከ1 ዓመት በታች☐ ከ1-2 ዓመት ☐3-5 ዓመት ☐5 ዓመት በላይ ☐

8. የወሰዱት ብድር በአንድ ጊዜ የሚከፈል ነው ወይስ ተቆራርጦ? ተቆ☐ጦ በአን☐ዜ

9. ብድሩ በፈለጉት ጊዜ ይደርስዎታል? አዎ☐ አይደለም ☐

መልስዎ አይደለም ከሆነ፣ ምን አይነት ችግር አጋጥምዎት ያውቃል?

____

V. አገልግሎት አሰጣጥ

1. ስለ አብቁት አንዴት አወቁ?

   ከጓደኛና ዘመድ ☐ ከማስታወቂያ /ከመገናኛ ብዙሀን/ ☐

   በመስሪያ ቤቱ ሰራተኞች ከተሰጠ መግለጫ ☐ሌላ ካለ ይግለን ____________________

2. ከተቋሙ /ከአብቁት/ ምን አገልግሎት እየተጠቀሙ ነው?

   ቁጠባ ☐ ብድር☐ ጥቃቅን ደህንነት☐ የሀገር ውስጥ ገንዘብ ዝውውር ☐

   ጡረታ መቀበል ☐ ሌላ ካለ ይግለፁ ____________________________

3. ምን አይነት የብድር ሥርዓትን ይመርጣሉ? የግል ☐የጋራ ☐

4. ብድሩን ለመውሰድ /ለማግኘት/ ምን ያክል ጊዜ ይፈጃል? ___________________

5. ቅርንጫፍ ጽ/ቤቱ እርሶ ካሉበት አካባቢ ምን ያክል ይርቃል?

   ከ5 ኪ.ሜ በታች☐ ከ11-15 ኪ.ሜ☐ ከ 20 ኪ.ሜ በላይ ☐

   ከ5-10 ኪ.ሜ ☐ ከ16-20 ኪ.ሜ ☐

6. የሰራተኞች የተጠቃሚ አያያዝን እንዴት ይመዝኑታል?

   ደካማ☐በቂ ☐ ጥሩ☐በጣም ጥሩ ☐ እጅግ በጣም ጥሩ☐

7. የመስክ ሰራተኞች ተጠቃሚዎችን በአግባቡ ይመርጣሉ? አዎ ☐ አይመርጡም ☐

   መልስዎ አይመርጡም ከሆነ ምን አይነት ችግር አያችሁ?

   ____

8. የመስክ ሰራተኞች ለተሰጠው ብድር ትክክለኛና ጊዜውን የጠበቀ ክትትል አደራረጋቸውን እንዴት ይመዝኑታል? ደካማ ☐ በቂ ☐ ጥሩ ☐ በጣም ጥሩ ☐ እጅግ በጣም ጥሩ ☐

9. ከተቋሙ ስልጠና ያገኛሉ? አዎ☐ አናገኝም ☐

   መልስዎ አዎ ከሆነ ምንን በተመለከተ ስልጠና አግኝተው ያውቃሉ?

   ብድርና ቁጠባን በተመለከተ ☐ ስለ ትምህርት ☐ ስለ ገበያ ☐

   ጤና ነክ☐ ሌላ ካለ ቢገልፁ _______________________

10. ስልጠናው በአማካይ ለምን ያክል ጊዜ ይሰጣል? ________________

11. ስብሰባ በየስንት ጊዜው ትገናኛላችሁ?

    በየሳምንት ☐በየ15 ቀን ☐በየ ወሩ ☐ከወር በላይ ☐

12. ለብድር የሚከፍሉትን የወለድ መጠን እንዴት ይመዝኑታል?

    በጣም ከፍተኛ☐ ከፍተኛ☐ ሚዛናዊ ☐ ዝቅተኛ ☐በጣም ዝቅተኛ ☐

ለቁጠባ የሚከፈልዎትንስ?

በጣም ከፍተኛ ☐ ከፍተኛ ☐ ሚዛናዊ ☐ ዝቅተኛ ☐ በጣም ዝቅተኛ ☐

13. የተቋሙን የጠቅላላ አገልግሎት አሰጣጥ እንዴት ይመዝኑታል?

ደካማ ☐ በቂ ☐ ጥሩ ☐ በጣም ጥሩ ☐ እጅግ በጣም ጥሩ ☐

14. ተ—ሙ ምን ማሻሻያ እንዲያደርግ ይጠቁማሉ?______________________________

E. Interview Questions

Interview questions for managers of the institution

The Interviewee:

Qualification/Work experience

Role/position in the institution

General questions

- Total number of employees and their qualifications
- What are the services provided by the branch?
- Does your institution give training for the employees as well as for customers? In which area do you give training? What is the average training time?

1. Questions related to institutional and financial Sustainability

- What is/are the sources of funding for operation?
- Do you have capable staff that can carry out all the functions within the organization?
- Are you efficient enough to cover your expenses from your own income?
- Do you have any difficulties you are facing when providing credit?
- Do you think that you will sustain your existence without subsidy (donors' fund)?
- How do you rate the profitability trend of the institution for the past 5 years?

2. Questions related to outreach

- Total number of customers'

	male	female
Saving/depositors	__________	___________
Credit/borrowers	__________	___________

- How is the client dispersion in the area (per kilometer)?
- Do you think ACSI reached the poorest of the poor people in the region especially in more remote areas?
- Do you have reached your outreach targets in terms of number of customers?

3. Questions related to customers' assessment

- Who are your target customers? For which group do you give priority?
- What criteria do you use in selecting potential customers?
- Which lending system most of the customers prefer?
- For what purpose most of your customers took a loan?

4. Questions related to loans and saving

- How much is the maximum loan size allowed for a single borrower at one time?
- Has the size of the loan increased/decreased as compared with the past years?
- What is the frequency of loans obtained by a borrower on average?
- How much is the loan-period? (Minimum and maximum)
- What is the amount of loan repayment periods (i.e. the installment period)?
- Do you have credit and saving committee? What are the duties of the committee?
- Did the loan takers pay the loan at the right time? If not what measures do you take?
- Do you feel that there is any potential for local savings?
- What type of saving does the institution provides for its customers?
- How much is the interest rate for saving and credit? What do you think as compared with banks interest rate?