

**ASSESSMENT OF MICROFINANCE INSTITUTIONS'
SOCIAL PERFORMANCES: THE CASE OF ADDIS ABABA**

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the Degree of Master in Business Administration*

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Addis Ababa University
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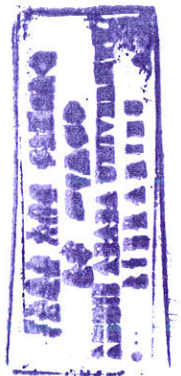
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List of Abbreviations

ADCSI:	Addis Credit and Saving Institute
DECSE:	Dedebit Credit and Saving Institute
MFI :	Micro finance Institution
MFIs:	Micro finance Institutions
MSE:	Micro and Small Enterprises
NGO:	Non Governmental Organization
OESSCO:	Oromia Credit and Saving Share Co.
SPI:	Social Performance Indicator

Abstract

Microfinance programs have been used in many developing countries like Ethiopia as poverty alleviation tool. However, their success depends on the availability of adequate funds, adequate institutional capacity, efficient coordination and active participation of clients in the planning of microfinance programs. Using the CERISE Social Performance Indicator Tool, with a certain modification, the study examines the social performance of five MFIs operating in Addis Ababa. The collected data were based on the four social dimensions of MFIs: outreach to the poor and excluded; adaptation of products and services to clients; improvement of the social capital of clients; and social responsibility of MFIs. The result shows that the MFIs are not concerned particularly about social capital improvement. Shortage of loanable fund, and high employee turnover are the major problems MFIs facing. In addition, discrepancy between objective set and actual performance of MFIs are observed. Thus, these MFIs need to refine their strategies with regard to clients social capital. They also need to address high employee turnover and base their action on objective set.



CHAPTER ONE

1. Problems and Its Approaches

1.1. Background of the study

In most developing countries poverty is prevalent among the large proportion of the entire population. Poverty is lack of access to public services related to health, education; and insecurity, vulnerability, low self-confidence and powerlessness (Rajasekhar, 2004).

In Ethiopia, more than 45% of the total population lives below the national poverty line (AEMFI, 2001). The majority of these poor reside in rural areas of the country. However, due to natural population growth in the cities/towns and rural-urban migration, the number of residents in urban areas has increased and also urban poverty has been increasing from time to time.

Poverty in Ethiopia is manifested because of lack of basic needs, increasing unemployment, inadequate income, drought, illiteracy, limited access to resources, etc. (Wolday, 2003). Lack of access to productive resources and absence of opportunities to develop skills and human capabilities made the poor to remain in absolute poverty condition. This may result in enormous social damage, instability, crime, drug use and so on which will affect the overall economic development of the country.

Thus, for countries like Ethiopia where poverty is widely prevalent, poverty alleviation efforts involving measures that provide the poor with small loans to start businesses and/or support their business endeavor is needed. In line with this, Gebrehiwot (2002) stated that poverty alleviation efforts include measures that develop the capacity of the active poor to engage in petty trade.

micro and small enterprises etc, so as to enhance their earnings and reduce poverty. Such measures may help to overcome those social problems mentioned above and contribute to the growth of the economy.

Micro financing, in its formal structure, started in Ethiopia in 1996 when the regulatory structure for Micro Finance Institutions (MFIs) was established recognizing the growing demand and need for Microfinance services among the poor and Micro and Small Enterprises (MSEs) sector. According to the proclamation No 40/1996; obtaining license from National Bank of Ethiopia authorizes an MFI to accept deposits, to draw and accept drafts payable (transfer money in Ethiopia) and manage funds for the purpose of on-lending them to clients (NBE, 1996).

Thus, the Ethiopian government has recognized the importance of MFIs to reduce poverty. Accordingly, it supported MFIs in order to expand access to micro credits to poor people and MSEs to enhance broad-based development and reduce poverty (MOFED, 2002). It is with in this context that more than 20 MFIs were established since 1996 in the county. The main sources of capital for MFIs are shareholders capital, contributions from regional governments, donors, and commercial bank of Ethiopia. The main objective of MFIs, as Wolday stated (2003), is:-

“the delivery of financial services (micro loans, micro savings, micro-insurance, money transfer etc) to a large number of productive but resource-poor people in rural and urban areas including MSEs in a cost effective and sustainable way. The interventions of MFIs are intended to make a positive and measurable impact on the lives of the poor and they offer group-based lending and require group guarantees.”

As indicated above, Ethiopian MFIs have a social mission. They aim to reduce poverty and facilitate the growth of MSEs by providing financial services to the poor and excluded. This help the unemployed to become self employed, thereby increasing their income and consumption and reducing poverty.

Since most microfinance intervention aimed at poverty reduction by improving the socio-economic development of the poor, it would be necessary to assess their performance in light of the contribution they made. As compared to the formal financial institutions, MFIs have a potential to reach and assist low income people by providing financial services designed specifically for them. MFIs help the clients to improve and strengthen their social and political capital. This will enhance their social organization and self confidence to facilitate their economic and social development. Above all these, given their greater flexibility, low capital and technology requirement and labor intensive nature, microfinance activities can help to build locally managed sustainable institutions (Ledgerwood, 1999).

However, there are limited studies on the impact of microfinance on poverty reduction. In addition, there is no evidence of systematic performance evaluation of the impact of microfinance on economic development in Ethiopia (Stevenson and Stonge, 2005). Those limited studies focused at local level as well as on the financial sustainability of the institutions.

1.2. Statement of the Problem

Microfinance program is taken in many developing countries as one of the strategies in their effort to poverty reduction. Many stakeholders such as NGOs, donors, governments etc, put money in microfinance with the believe that microfinance helps the poor by providing quality services and improving clients lives.

Thus, there is a need to measure success in terms beyond the financial that is both financial performance and social performance matters. Social performance looks at the entire process by which impact is created unlike the traditional evaluation which focuses on end results and impact. Social performance includes analysis of the declared social objectives of the institutions, the effectiveness of their system and services in meeting these objectives and related outputs. This can improve the finance bottom line through better retention of clients and reducing costs (Hashemi, Foose, and Badawi 2005). Accordingly, the social performance has been defined along four main dimensions.:

1. outreach to the poor and excluded
2. adaptation of services and products to target clients
3. improving clients social and political capital
4. social responsibility of Micro Finance Institutions

Thus, this study attempts to investigate these four dimensions that MFIs should achieve.

Based on the background of the study, the statement of the problem and literature surveys, this research raises the following basic research questions to be analyzed.

1. What are the strategies of the MFIs regarding outreach to the poor and excluded?
2. How many different products do MFIs provide to meet client needs?
3. How MFIs contribute to the improvement of the social and political capital of their clients?
4. How MFIs are performing their social responsibilities towards clients, employees and local community?

1.3. Objectives of the Study

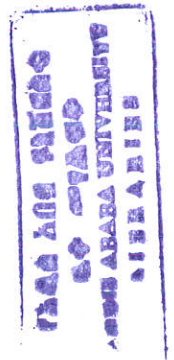
General objective

The main objective of the study is to assess the social performances and problems of MFIs operating in Addis Ababa.

Specific objectives

The specific objectives of this study are to assess the social performances of MFIs with regard to the following dimensions:

- Outreach to the poor and excluded
- Adaptation of products and services to target clients
- Improvement of social and political capital of clients
- Social responsibility of MFIs.
- Ultimately to propose ways of overcoming problems for better performance



1.4. Significance of the Study

The study of social performance of MFIs in Addis Ababa has an invaluable importance for many reasons. First, assessing the performances of MFIs would enable us to identify their strengths and weaknesses and propose some improvements. Second, the assessment can make those concerned bodies be aware of potential areas for supporting MFIs so that they can be efficient in delivering their services to their target clients. Third, there are hardly such studies which examine social performances of MFIs. Thus, it may contribute a lot in filling this gap. Finally, the study, if communicated to stake holders, can help them be informed about the status of MFIs.

1.5. Scope and limitation of the Study

The study was only undertaken on five MFIs in Addis Ababa. The results would have been generalized if all MFIs have been taken in to account. Due to time and financial constraints the study is limited to microfinance institutions operating in Addis Ababa.

1.6. Research Methodology

The study used a survey design to assess the social performances MFIs. Both Primary and secondary data available within the MFIs and obtained from management were used.

Sample design

There are about 14 microfinance institutions in Addis Ababa. Of these institutions 10 were included in the sample and self-administered questionnaire was distributed. However, only 5 MFIs returned the questionnaire. Therefore, analysis of is based the data collected from these institutions.

Data collection Method

CERISE social performance indicator tool with some modification is used. Key informants such as coordinators/managers of MFIs were interviewed to solicit as much objective information as possible. Documents such as reports were also used to collect the necessary data.

Data Analysis

The information collected through questionnaire on each of the four dimensions is scored in a scale of 25 points, for a total of 100 points. Analysis is made by dimensions and sub dimension by weighting the scores obtained by each MFI in each dimensions and sub dimensions by the maximum score that can be obtained. This enables to show the orientation of MFIs and to display

the result graphically. In addition, in order to compare the relative performances of MFIs average results for each dimension were computed and their performances were categorized according to their deviations from the average.

1.7. Organization of the Study

The study is organized in four chapters. The first chapter covers a brief introduction of the problem and its approach. The second chapter tries to cover the related literature reviews. The third chapter deals with data presentation and analysis. Based on the analysis and the findings, the last chapter presents the summary, conclusions, and recommendations of the study.



CHAPTER TWO

Literature Review

2.1 Need for MFIs

Access to finance helps to reduce poverty. It enables the poor to invest in profitable businesses and increase income. It also helps the poor to reduce their liquidity constraints and consumption variability (Alemayehu et al , 2006).

However, due to higher transaction costs per unit of lending for small loans, the poor are left out of the formal financial system. Moreover, even when the poor appears to have access to a formal financial institution, the services on offer may not much their needs. Deposit accounts may have minimum amounts and inflexible withdrawal rules. And loans usually have collateral requirements that exclude most of the poor (Littlefield and Rosenberg, 2004).

Thus, these unserved or excluded group constitute the demand side for microfinance services and Microfinance Institutions are needed to fill the gaps and integrate the poor in to the formal market (Ledgerwood; 1999).

Initially, Microfinance focused on providing very standardized credit products. But the poor just like any one else, need a diverse range of financial instruments to be able to build assets, stabilize consumption and protect themselves against risk (Juanah, 2005). This is evidenced, for instance, by the works of the Grameen Bank in Bangladesh, KREB in Kenya, PPPCR in Burkina Faso, etc. Moreover, many microfinance programmes have shown remarkable success not only in

alleviating poverty but also in “debunking myths about credit for the poor” (Littlefield and Rosenberg, 2004) by demonstrating that the poor can be served permanently and profitably. The poor will repay uncollateralized loans reliably, are willing and able to cover the cost of delivering the service, and that they require a variety of financial services (Ibid). Thus, this indicates the broadening of the concept of microfinance.

However, the current challenge is to find efficient and reliable ways of providing a variety of microfinance product (Juanah, 2005).

2.2 Services of MFIs

Micro finance usually refers to the provision of financial services to low income people. However, some MIFs may also provide non financial intermediation service. In the following paragraphs the different financial and non financial services offered by MFIs are presented

Financial Intermediation

The financial services provided by MFIs include credit, savings, insurance, and payment services.

Credit Services

This is giving small loans to the poor people for short period with regular and frequent loan payment. The loans may be made for investment in productive activities, housing or for any purpose that ease the liquidity constraint of the poor (Ledgerwood: 1999).

In addition, access to credit is important for consumption smoothing at household level helping the poor to respond to emergencies and overcome decline in revenue (Alemayhu et al, 2006).

With regard to this, Juanah (2005) stated that the credit facility “enhances the ability of the poor

to face external shocks and reduce the distress selling of their assets. Ultimately, the impact on the household will include higher income, more diversified source of income, increased household consumption and better education for the children”. Moreover, credit service of MFIs reduces the exposure of the poor on expensive personal and informal exploitative sources (Johnson and Regally, 1997; and Juanah, 2005).

According to Ledgerwood (1999) credit can be delivered to individuals or to a group of individuals. Individual lending is based on some form of collateral or security. Such form of lending requires the screening of potential clients by credit checks and character reference, and the tailoring of the loan amount and term to client needs. It also required a significant investment of staff time and energy to establish close relationship with client. (Waterfield and Dural (1996) as cited in Ledgerwood, 1999). Group-based lending makes loans to a group of individuals having a common wish to access financial service. This approach is based on the model of rotating savings and credit association. But it provides additional flexibility in loan size and terms allowing group members (borrowers) to access credit when needed rather than waiting for their turn (Ledgerwood, 1999).

Saving Services

The provisions of saving services help the poor to accumulate capital which enhances their capacity for self-investment and to acquire productive assets (Juanah, 2005). Vanderlack and Shreiner (2001) also emphasized the importance of saving stating that “borrowing is riskier than saving” and that saving services help the poor to improve their wellbeing.

Ledgerwood (1999) indicated that “low income clients are often unable to access saving services from traditional banks due to a limited branch network or the reluctance of banks to deal with small amounts of money. Although it has been demonstrated that low income clients can save substantial sums, traditional banks are not set up to collect small amounts and may not find it cost efficient to do so”. Thus, this reflects the need for saving services by MFIs.

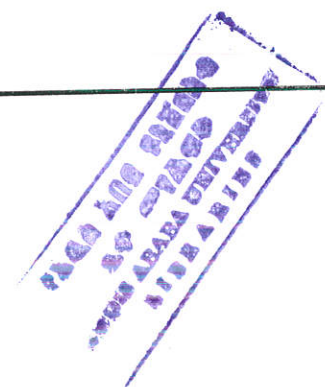
Insurance, Payments and Money Transfer Services

Insurance service encourages more saving in financial assets and reduces the risk and potential losses in times of unforeseen circumstance. Particularly insurance services reduce the impact of external shocks. As a result, it leads to an increased desire among the rural poor to invest. The ultimate impacts are greater income, less volatility in consumption and greater security.

Many transfer service facilitates the free flow of money and subsequently trade and investments. The easy transfer of money from one place to another and from person to person is a very effective instrument in facilitating business between people and places near and far. Thus with banking services that enhance investors and even individual to easily access money, greater income is available among people in the rural area and their consumption level increases (Juanah, 2005)

Non financial Intermediation services

The non financial intermediation services include services related to financial management and business activities, and social needs. The financial management and business development services includes business training, record keeping, family budget, etc., Non financial services



related to social needs include literacy training, access to health workers, gender sensitization, etc (Ledgerwood, 1999; and CERISE, 2005)

2.3 Outreach of MFI

Outreach refers to the efforts to extend microfinance service to the people who are unserved or underserved by formal financial institutions (Lafourcade, et al, 2005). An outreach measures the extent to which an MFI has succeeded in reaching its clients and the degree to which it has met the demands of financial services.

Outreach is a multidimensional concept and different indicators can be used to measure it. Therefore, different literatures identified different dimensions that need to look at in order to measure outreach of MFIs. Meyer (2002) indicated that the number of clients served (breadth including number of women served), the depth of poverty and the variety of financial services (scope) are the predominant dimensions of outreach.

According to Gulli (1998) however, there are five dimensions of outreach: depth, breadth, scale, quality and geographical. Depth of outreach identifies the poverty level of clients. Breadth of outreach measures which sectors are engaged in. Scale of outreach refers to number of clients served. Quality of outreach and geographical outreach refer to quality of the service and the location of clients.

Lafourcade et al (2005) stated that outreach of MFIs can be measured in terms of breadth or depth. The breadth of outreach refers to the number of clients served and volume of services provided

by an MFI. And depth of outreach evaluates the types of clients reached and their level of poverty, the socio economic level of clients reached.

Regardless of the different dimensions (indicators) of outreach noted in literatures, the indicators of outreach to a particular MFI depend on its objectives. And these indicators can be weighted, quantified and prioritized according to their relevance to the institution (Ledgerwood, 1999).

2.4 Social Capital and Microfinance Programs

According to Grootaert (1997) as cited by Van Bastelaer (2000), traditionally, the concept of capital included the natural, physical (produced) and the human capital as the core building blocks of economic growth and development. However, nowadays it is recognized that these capitals determine only part of the process of economic growth because of the missing of social capital. Social capital determines the way the economic actors interact and organize themselves so as to bring about growth and development.

Van Bastelaer (2000) further stated that the institutions, the relationships, the attitudes and value that govern interaction among people and contribute to economic and social development constitute the social capital of a society. Thus, social is not only the sum of the institutions that underpin society but also the glue that holds them together.

Furthermore, social capital also includes the norms, shared values and rules for social conduct expressed in personal relationships, trust and a sense of responsibility that makes a society more than a collection of individuals (Van Bastelaer, 2000). These norms and shared values of a

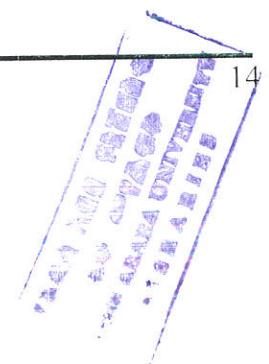
society facilitate exchange, reduce transaction and information costs, and enable management of resources collectively (Fukuyama, 1995 as cited in Woolcock and Narayan, 2000).

Nowadays, it is recognized that social capital has attracted policy makers and has become a policy tool to reduce poverty in developing countries (Cecchi et al, 2005). According to Cecchi (2005: 5), social capital may contribute in alleviating poverty through four main channels:

1. informal social networks of relative and neighbors constitute a fertile ground for mutual insurance mechanisms.
2. social bridging ties facilitates the transmission of information and trust, the enforcement of contracts, the creation of informal credit networks or enable access to formal credit.
3. it help the poor to act collectively so as to improve their conditions through advocacy and lobbying activities that would be impossible otherwise
4. it may play an indirect role at macro level in alleviating poverty and inequality through its positive influences on economic development

Thus, social capital may be used as a tool for improving the living standards of the poor through enhancing their capabilities and fostering their access to information, formal and informal credit, technology and education (Putterman, 1995; Fox and Gershman, 2001 as cited in Cecchi et al, 2006). According to Van Bastelaar (2000) both formal and informal credit systems work better when borrowers are connected to the sources of funds by social ties.

Different types of credit arrangements targeted to the poor rely on social ties and interaction, as part of the design and implementation of their delivery and enforcement mechanisms (Cecchi



et'al, 2006 and Van Bastelear, 2000). For instance, credit arrangements such as rotating saving and credit association, the local money lenders, trade credit and group-based microfinance are based on the social relations and pattern of personal interaction. Group-based microfinance basically adapted the model of rotating saving and credit association, but it adds flexibility in loans size and terms and allows borrowers to access funds when they need (Ledgerwood 1999).

Social networks (formal and informal) also “enable people to carry out collective actions, to participate in effective local decision making, to lobby for improved services, and to secure informal insurance from friends, neighbors and the community (Narayan, 2000; Narayan and Prifchett 1999; Kozel and Parker, 2002 as cited in Cecchi et al 2006).

Finally, for clients of MFIs social capital enable them to enhance their social organization (collective action, information sharing, political lobbying etc) and develop self-confidence. This in turn helps them to engage in sustainable and profitable activities. On the other hand, group-based lending may help MFI to reduce transaction costs. And it also enables MFI to improve (increase) repayment rates through screening of clients, internal group monitoring and by using a hierarchical structure, that is collecting repayment from a group rather than from each group member (Ledgerwood, 1999).

2.5 MFI and the Developing World

Since 1980s' microfinance programs and MFIs have grown substantially. According to world wide inventory of MFIs, between 1995 and 1996 the World Bank identified 1,000 MFIs in 101 countries. According to the survey, by September 1995 about US\$7 billion in outstanding loans

had been provided to more than 13 million individuals and groups. And about US\$19 billion had been mobilized in 45 million accounts (Paxton, 1996).

At the end of 2000, 1,500 MFIs in 85 developing countries reached 54 million members. The total volume of outstanding credit amounted to US\$18 billion. The total savings cultivated was about US\$13 billion which represents 72% of the outstanding loan. From the perspective of the population of developing countries, the outreach of microfinance represents on average 1.5% of the total population are MFI members. The credit volume disbursed were around US\$5 per inhabitant and US\$ 3 per inhabitant were mobilized savings (Lapenu and Zeller, 2001).

Outreach of Microfinance

According to the Micro credit summit report the outreach of micro credit programs show significant world wide increase as indicated in the table below.

Table 2.1 World Outreach of Micro credit

Date	Programs number	Clients (number)	“Poorest” client
End 1997	618	13.5 million	7.6 million
End 2000	1,567	30.7 million	19.3 million

Source: FDC, (2003)

At the end of 2000, of the total 30.7 million clients the Asian programs reported 23.6 million clients, of whom 10.5 million were classified as “poorest”. Bangladesh alone houses a number of ‘giant’ institutions, of which the Grameen Bank with 2.4 million poorest clients, BRAC with 1.6 million, ASA with 1.01 million and PROSHIKA with 0.89 million. This clearly indicates that Asia is particularly active for microfinance movement (Conroy, 2003)

Performance of MFIs

In terms of volume of activities (table 2.2) Asia, including Bangladesh, leads in the number of MFIs and clients as well as on the volume of savings and loans. The numbers of MFIs and clients remain modest in Latin America compared to Africa; however, they mobilize an impressive amount of saving and provide a significant amount of loans.

Table 2.2 Worldwide volume of activity of MFIs

	Latin America	Africa	Asia
Percentage of MFIs	9	21.8	69.2
Percentage of members	12.9	9.9	7.2
Percentage savings	40.5	5	54.5
Percentage of credit	32.5	2.6	64.9

Source IFPRI (1999)

Table 2.3 Average performance of MFIs

	Latin America	Africa	Asia
Repayment			
Repayment(unweighted%)	93.1	88.7	95.6
Repayment(weightedby volume of loans ,%)	94.3	91.6	98.6
Staff productivity			
Number of loans	146	145	81
Volume of loans(\$)	59,329	21955	6,037
Volume of saving(\$)	5,888	16,253	3,034

Source IFPRI (1999)

Staff Productivity measures the outreach and efficiency of MFI in term of number of borrowers (number of loans) or number of savings mobilized per staff member. In the table 2.3, it is expressed as the ratio of number of loans to number of personnel, volume of loans to number of personnel and volume of saving to number of personnel.

African MFIs have the lowest repayment rates. But Asia exhibits a good repayment rate (95.6%) although its productivity, both in terms of number of clients(81) and volume (6,037 and 3,034) is very low compared to Africa(21,955) and Latin America59,329). This may be due to the lower cost of labor compared to professional staff in Africa and Latin American. The loan portfolios in Latin American have three times larger than African MFIs. African productivity is good interms of number of loans but with lower transaction volume (Lapenil and Zeller, 2001).

Overall, MFIs provide extensive coverage of Asia, Africa and Latin America and reached 54 million members, who have received 18 million in loans and accumulated \$ 13 billions in savings. However, MFIs are highly concentrated in size, 3% of the largest MFIs reach 80% of the members. (Lapenu and Zeller 2001 and Conroy 2003).

2.6 Overview of MFs in Ethiopia

Development of Micro finance in Ethiopia

It is obvious that the poor in Ethiopian have low income that leads to low investment. This results in low productivity and income. Access to institutional credit that contributes to an increase in investment is very limited in the country. The conventional banks in the country consider the poor as riskier and unprofitable since a loan size below 100,000 is considered by these banks as

unattractive and unprofitable. Thus, the majority of the poor get access to financial service through informal channels such as money lenders, iquib, idir, friends, relatives, traders etc (Bezabih et'al 2005). According to Bezabih (2005), the informal finance plays a significant role in serving the community. It constitutes about 69 percent of borrowers and 61 percents of loans size. The informal lenders have high loan recovery rates and flexible terms. However, they charge very high interest rates.

Savings and credit co operations and other multi-purpose cooperative are also the major financial service outlets particularly in urban areas. NGO have also been involved in directly funding micro-credit activities targeting the poor as part and parcel of their poverty alleviation programs. However, the micro-credit programs subsidized by NGO's were unable to create sustainable financial institutions. They focused entirely on the provision of loans with very low interest rates and saving products (which can be used as a source of loanable capital) were not considered in the delivery of financial services to the poor. As a result, these micro credit programs were not only unable to cover their operational costs but also encouraged dependency since donors were considered the only source of loan funds (Wolday, 2007).

Thus, the very high interest rate of the informal finance and the problem of subsidized NGOs micro credit program necessitated a regulatory framework in order to promote more sustainable MFIs in Ethiopia. As a result, the activities of MFIs brought under the monetary and financial power framework of the country by proclamation No 40/1996, empowering NBE to license and supervise MFIs (Wolday, 2007).

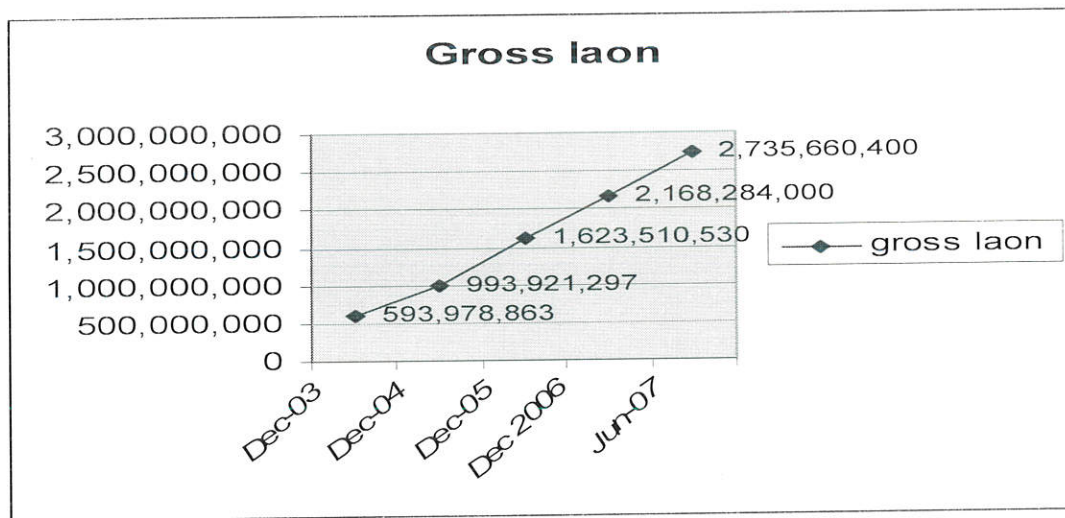
The Status of MFIs in Ethiopia

The microfinance sector in Ethiopian is quickly expanding and institutions have increased their activities. As of June, 2007 about 27 MFIs operate in the country. The following paragraphs will discuss the performances of the Ethiopian MFIs.

Outreach

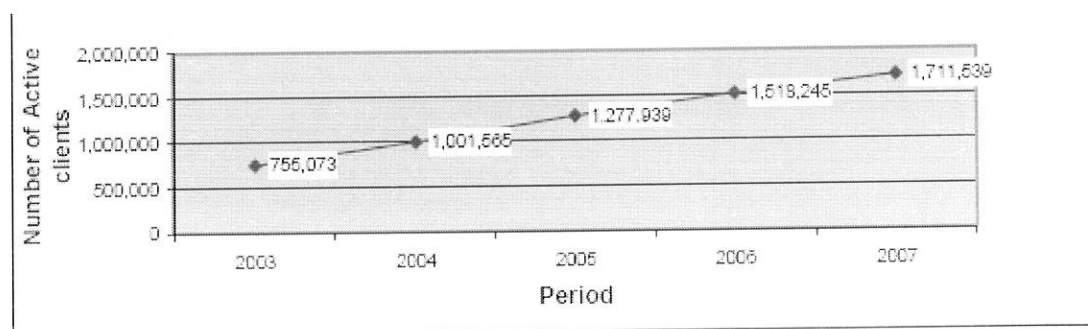
Outreach of MFIs is measured in terms of different dimensions. The number of active clients, volume of savings , percentage of loans to the poorest of poort etc are considered core indicators of outreach. The MFIs in Ethiopia have shown a remarkable progress in terms of outreach. As of June 2007, the MFIs had an active loan portfolio of about 2.7 billion birr delivered to about 1.7 million active clients as shown by figure 2.1 and 2.2.

Figure 2.1 Gross loans



Source: AMFI (2008) and Befikadu (NBE, 2007)

Figure 2.2 Trends of Industry outreach



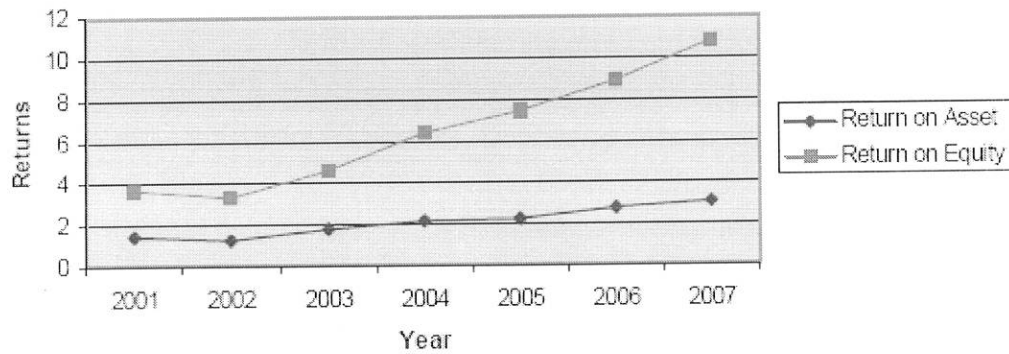
Source: Befikadu (NBE, 2007)

As can be seen in the above figures the industry outreach in terms of number of active clients rise on average by 22.9 percent and outstanding loans showing an average yearly growth of about 47.59% percent. The MFI have attained significant growth between 2003 and 2007. The number of clients and volume of loan portfolio increased by 126.67% and 360.56% respectively as shown in figure 2.3.

Financial performance

MFIs earn financial revenue from loans and other financial services in the form of interest fees, commissions etc. MFIs financial activities also generate various expenses, from general operating expenses and cost of borrowing to allowance for the potential loss from defaulted loans.

Figure 2.3 Sustainability as Measured by ROA and ROE



Source: Befikadu(NBE,2007)

At industry level MFIs are operationally self-sufficient as the return in assets and return on equity are improving over time as shown in figure 2.3.

MFIs Products

Although most MFIs focus on loan provision and saving products, few MFIs provide micro insurance, leasing pension, money transfer and consultancy service (Befekadu, 2007). However, few also restrict themselves on loan provision. According to Befekadu (2007), most MFIs charge different interest rates ranging from 14% to 24%, but some charge flat interest rate. This difference in interest rate among MFIs is due to variation in human power and material costs involved in the process and follow up of the credit facility; and variation in risk involved in the type of the business. The interest rate is very high compare to commercial banks due to their exposure to expensive risk and, administrative and transaction costs.

Challenges of MFIs

According to Befekadu (2007), some of the challenges that MFIs faced include the less willingness of commercial banks to lend to MFIs with out collateral, unfavorable environment in enforcing the loan contract, less saving habits, etc.

In addition, the government regulation limited the operation of MFIs to a specific region. This gave a particular MFI a monopoly advantage and exclusive operation rights in the region. This has a negative impact on operations, effectiveness, competitiveness, and service quality for the clients (Pitmaber, 2003).

2.7 Conceptual Framework

Microfinance has been developed to reach people excluded from the conventional financial system. In most developing countries, projects and institutions have been successful, resulting increased outreach, diversified products for the target population, and high repayment rate. In the 1990's, financial and institutional sustainability of microfinance institutions have been given much emphasis. As a result, tools to evaluate financial performances have been developed but social performances were not considered, (CERISEE, 2005).

Nowadays, donors and social investors ask MFIs to justify the funding: who are the clients reached? How can social and financial objectives be combined? How to avoid mission drift? According to Hashemi et al (2005), the increasing interest in social performance stem from a long held belief that while financial sustainability is essential for massively scaling up services, it is not sufficient to ensure that social objectives, which anchor much of the passion and commitment to microfinance, will be automatically met. Moreover, Hashemi et al (2005) also argue that

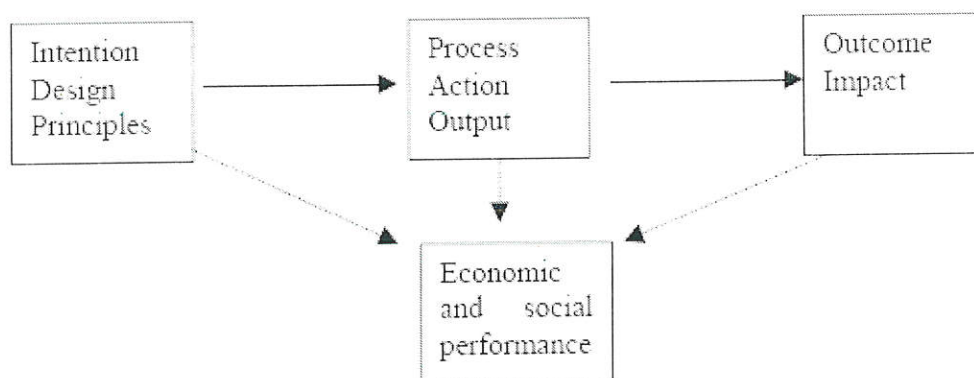
donors, governments, foundations, and many individuals put money in microfinance with the belief that microfinance helps poor people. Therefore, if Microfinance Institutions are reaching the poorest, then they should provide the evidence to back it up.

Social performances

Social performance may be defined as the effective translation of an institution’s social missions/goals into practice. It includes sustainably serving increasing number of poor and excluded people, improving the quality and appropriateness of financial services, improving the socio-economic condition of clients, and ensuring social responsibility to clients, employees and the community it serves (Hashemi et al, 2005). Thus, the social value of microfinance relates to the way financial services improve the socio-economic condition of the poor and excluded clients, and widen the range of opportunities for communities (IFAD, 2006).

The concept of social performance focuses not only on the final impact, but also looks at the entire process by which social objectives are achieved-impact is created (IFAD, 2006 and Hashemi et al, 2005), as indicated in the diagram below.

Figure 2.4 Chain of Microfinance Institution’s activities



Source: CERISE, 2005



Like any other organization, the chain of activities of an MFI goes from its intention, principles, design, to the process and action implemented, output obtained and finishes with the outcome and impact. Performances refer to optimal possibilities of the institution or results obtained in terms of design, output and outcome as indicated by broken arrows in the above figure. Social performance, therefore, includes many different dimensions from intention to impact. Thus it is possible to measure the whole process in an MFI's chain of activities (CERISE, 2003)

Different approaches and tools exist or are currently being implemented to assess the social performances of Microfinance Institutions. These approaches/tools differ in their emphasis on the different dimensions of social performance. Here under, CERISE Social Performance Indicators Tool will be discussed. This tool will be used to assess the social performances of the institutions.

CERISE: Social Performance Indicators Tool¹

The SPI tool evaluates the intentions, actions and corrective measures implemented by an MFI, rather than transformation in clients. This tool is based on the hypothesis that proportionality of means to objectives can provide better client impact at the end of the chain (IFAD, 2006). Therefore, the analysis of internal systems and processes are adequate to determine whether an institution has the available means to attain its social objectives.

The CERISE tool examines the following four dimensions of social performance describe below:

1. Outreach to the Poor and Excluded:

MFI have generally been developed to reach a population excluded from the classical financial system. MFIs can have the objective of reaching socially excluded populations or the poor, or

¹ The explanation of CERISE SPI Tool is taken from CERISE, (2005) and Hashemi, (2006)

simply to offer financial services in a region where classical banking systems are absent. The depth of outreach of the MFI can be measured to evaluate its focus on the economically and socially excluded population.

The first dimension checks if the MFI is intended for the poor and for the excluded. This does not necessarily mean that it is addressed only to the poor. Generally, three main strategies can be observed to reach the poor and the excluded:

- Geographic targeting: location of branches or MFI in poor/isolated areas, areas where no other formal financial services are available;
- Individual targeting: screening out people who do not meet the requirements and/or selecting those who meet the criteria of poverty and/or exclusion;
- Methodological targeting or “pro-poor” methodology: design of the services to address the specific needs of the target population, with the idea that the non-target population do not ask for these types of services.

Thus, the tool checks which targeting strategy the MFI is following, how the MFI verifies the accuracy of the strategy and what the results of the strategy are in terms of outreach.

2. Adaptation of the services and products to the target clients.

It is not enough to decide to reach a target population. Microfinance services are too often standardized: small loans, weekly repayment, group solidarity, etc. The MFI must learn about the target population and work on designing its financial services so that they fit clients' various needs and constraints.



Social performance indicators analyze the process leading to service definition and the extent to which the MFI knows about its clients' needs.

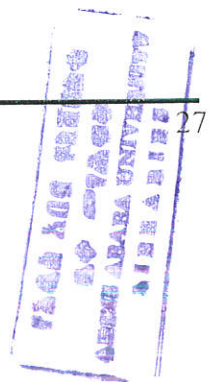
3. Improving social and political capital of clients

For the MFI, trust between the MFI and the clients can reduce the transaction costs and improve repayment rates. It thus can foster collective action and reduce free-riding, opportunistic behavior, and reduce risks. For the clients, strengthening their social and political capital can enhance their social organization (collective action, information sharing, political lobbying, etc.). Social performance indicators should

- Measure the degree of transparency, the effort of the MFI towards giving voice to its clients within the organization and beyond (community, local governments, national government, etc.). Self-confidence can also help them to engage in sustainable and profitable activities.
- Measure the degree of trust and solidarity and the MFI's efforts towards bringing clients together and giving them strength and responsibilities within the organization and beyond (community, local governments, national government, etc.) with a view to helping them alleviate their economic and social constraints as much as possible.

4. Social responsibility of MFI.

Social awareness is a necessary prerequisite for socially responsible corporate behavior. Social responsibility requires a suitable human resources policy, adaptation of the MFI's corporate culture to its cultural and socioeconomic context, social responsibility towards its clients and towards the community where it operates (credit guarantees suited to local conditions, balanced



relationships between staff and clients, in particular in MFIs where there are elected clients who participate in decision making, etc.).

Thus, according to Hashemi et al, (2005) and Zeller et al (2003) rather than interviewing clients to determine depth of outreach, the CERISE tool examines internal systems – the mission statement, whether targeting tools are used, loan size to approximate whether poor clients are actually being served. Also rather than analyzing client empowerment at the household and community level, social and political capital of clients are determined through assessment of their involvement in MFI decision making and in the transparency of the financial transactions. The available institutional information is mined to generate an assessment and avoids long client level survey, which enable to reduce costs

CHAPTER THREE

Data Presentation and Analysis

This chapter deals with the presentation and analysis of data collected through questionnaire, interview and from relevant documents.

There are about 14 MFIs operating in Addis Ababa. Of these institutions, 10 were selected using simple random sampling. Out of the 10 questionnaires distributed to the managers of these institutions only 5 questionnaires were returned. Thus, the data analysis is based on only 5 MFIs.

3.1 Description of the MFIs

Although there are about 26 MFIs in the country, the microfinance industry is dominated by four largest MFIs (DECSI, OCSSCO ADCSI and OMO) which are located outside Addis Ababa. These institutions alone accounted for about 83.59% of the market share in terms of gross loan portfolio and about 81% of number of borrowers. The remaining 22 MFIs represent only about 16.41% of gross loan portfolio and 19% of number of borrowers (AEMFI, 2008).

Table 3.1 MFIs years of operation, personnel, total assets, borrowers & market share

MFI	Year of operation	No. of personnel	Adjusted total Asset	No. of active borrowers	Market share /borrowers %	Market share/ loan%
ADCS	6	454	174,676,390	54,920	3.6	5.8%
Agar	2	33	6,035,320	1,906	0.1	0.18
ESHET	6	121	31,246,331	24,490	1.6	1.19
Meklit	6	58	10,134,231	7,426	0.5	0.33
Metemamen	4	31	5,139,651	7,002	0.5	0.18
Total					6.3	7.68

Source: AEMF. (2008)

As clearly shown in table 3.1, the total market share of the MFIs understudy represent about 6.3% of the market share in terms of number of borrowers and 7.68% of gross loan portfolio.

As indicated in the table 3.1, ADCSI has the highest total assets and number of borrowers while Agar has the lowest number of active borrowers. However, Agar indicated to be the second lowest of MFI interims of total asset holdings. These lowest total values are supported by the fact that the institution is infant, only three years of operations

From the market share point of view, the number of clients served by MFIs is related to the volume of portfolio lent. For example, ADCSI has he highest number of borrowers (3.65 of total MFI's market in the country). On the other hand, Agar has the smallest market share both interims of number of borrowers and loan portfolio, 0.1% and 0.18%, respectively

3.2 Social performances of MFIs

The social performance of MFIs is analyzed based on the data collected from five observational samples employing the four main dimensions of social performances identified for the purpose of the study.

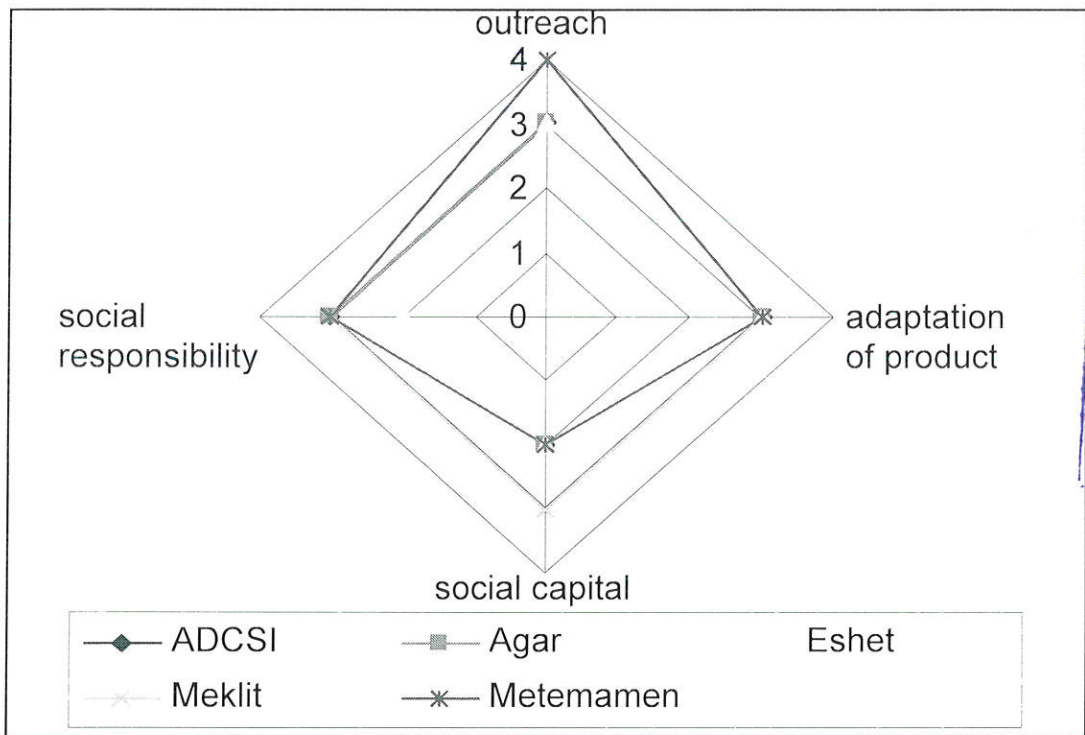
Analysis by major Dimensions

Social performance refers to the effective translation of an institution's social missions/goals in to practice. This included serving increasing number of poor and excluded people (outreach), providing a variety of quality financial products and services (adaptation of products to client needs), improving the socio-economic condition of clients (social capital improvement), and ensuring social responsibility to clients, employees and the community it serves. However, MFIs may emphasize one or more of these dimensions depending on their primary objectives.

Therefore analysis of the performances by dimension helps to show the main orientation of an MFI.

In the questionnaire the Managers of the five MFIs were asked to rank the four dimensions in terms of the social objective to be realized to identify their main focus on the different dimension. Points 1 to 4 were assigned for not an objective, minor objective, important objective and major objective respectively.

Figure 3.1 MFIs with main focus on different dimensions



As can be seen from the above figure, ADCSI and Agar focuses more or less on all dimension except on improvement of social capital of their clients. Meklit MFI oriented to wards on on the product adaptability and social responsibility dimensions. But Metemamen and Meklit are oriented to wards outreach and social responsibility dimensions, respectively.

Analysis by sub dimensions

Analysis of the performances of MFIs by sub dimensions helps to visualize in more detail the strengths and main focuses of the institutions for the different dimensions. The performance of MFIs by sub dimensions will be described under the four main dimensions.

The information on each four dimension is scored in a scale of 25 points, for a total of 100 points. The scored obtained by MFIS in each dimension is therefore weighted out of 25 points to compute their performance. The percentages for each sub dimension are calculated by dividing the scores of MFIs along each sub dimensions by the maximum score that could be obtained. The table shows the performances of MFIs in different dimension.

Table 3.2 MFIs with major focus on different dimensions

Sub dimensions	Maxi.	ADCSI		Agar		Eshet		Meklit		Metemamen	
		score	%	score	%	score	%	score	%	score	%
Geographic targeting	6	0	0	0	0	0	0	0	0	0	0
Individual targeting	10	8	0.8	3	0.3	3	0.3	7	0.7	8	0.8
Methodology targeting	9	6	0.67	7	0.78	6	0.67	5	0.56	7	0.78
Range of service	9	4	0.44	5	0.56	1	0.11	7	0.78	3	0.33
Quality of service	11	6	0.55	6	0.55	7	0.64	6	0.55	5	0.45
Non financial service	5	3	0.6	1	0.2	1	0.2	3	0.6	1	0.2
Trust and information sharing	6	5	0.83	3	0.5	3	0.5	2	0.33	1	0.17
Client representatives	11	1	0.09	4	0.36	1	0.09	4	0.37	2	0.18
Empowerment	8	1	0.13	0	0	1	0.13	1	0.13	2	0.25
HRM	8	4	0.5	5	0.63	6	0.75	6	0.75	5	0.63
SR clients	8	7	0.86	4	0.5	2	0.38	5	0.63	2	0.25
SR community	9	4	0.44	1	0.11	2	0.22	5	0.55	4	0.44



Outreach to the poor and excluded

The outreach dimension of the social performances of MFIs includes geographic targeting, individual targeting and methodological targeting sub dimensions.

Geographic targeting is concerned with a clear definition of criteria set by MFIs to target a specific area of operation and location of branches around the target population. As indicated in the above table, all of the five MFIs set no clear definition and criteria. This implies these MFIs are not targeting specific area in the city of Addis Ababa

With regard to individual targeting , different devices such as family structure, ownership of productive assets, poverty level, women, unemployment level etc may be used to facilitate the selection of the target population. All of these, however, need the knowledge of the target population or the verification of the information collected at the time of application. In the study it was identified that ADCSI (80%), Metemamen (80%) and Meklit (70%) are better performers in this dimension.

MFIs also need to design their services to facilitate their access to target clients. This includes providing loans secured by social collateral such as group based lending, recommendation by trusted third party. In addition, developing specific procedures, size of the loan, the minimum amount for installment repayments, and the minimum amount required to open a saving account are considered as methodological targeting. In terms of Methodology, all MFIs showed good performance, however, both Agar (70%) and Metemamen (78%) present better performances compared to the others. This indicates, relatively their commitment to address the specific target clients.

Product adaptability

MFIs must identify their clients needs and diversify their products to meet clients' needs. For example, loan products can be diversified in amount, duration, type of guarantee, repayment schedule and purpose. In addition, flexibility of repayments and voluntary saving services can also address the needs of clients. In this respect, Meklit (78%) and Agar (56.%) presents better performance particularly voluntary savings while Eshet MFI (11%) exhibiting the least performance in delivering a range of products.

However, Eshet (64%) exhibits better efforts than others on delivering quality services. Quality of service refers to rapidity of services such as rapid disbursement of loans, transparency of service related to the status of their financial transaction, simple and easily understandable application procedures and percentage of dropout.

Although most MFIs gave less attention to the non financial services (such as business training, training on book keeping, skill development, entrepreneurship, gender sensitization etc), they are important to improve the effectiveness of the financial services provided by MFIs. However, such non- financial services can be provided by partnership with NGOs or government organizations working on development activities. In the study, it was identified that, ADC SI (60%) and Meklit (60%) provide better non financial service such as business development services and skill training on how to keep their books of accounts. This indicates their effort to build clients capacity to use the loan and savings in a more effective way.

Social capital improvement

The social capital dimension is based on the assumption that trust between the MFI and clients can reduce transaction costs and improve repayment rates. It can reduce opportunistic behavior and promote collective actions. This dimension also includes, empowerment of clients through group formation, creating relationship and networks with other programs and MFIs to share and resolve clients problem.

In addition, client's participation in organizing and facilitating repayments and in the definition of services provided by MFI are also important in improving social capital of clients. However, in the study it was reported that all MFIs gave less emphasis for these three sub dimensions, except Agar (50%) and ADCSI (83%) which present better efforts in building trust between their organizations and their respective clients.

Social responsibility of MFIs

The social responsibility of MFIs includes: responsibility towards employees, to clients and to wards the community at large.

MFIs responsibility towards their employees refers to the human resource policy of the institution with regard to salary scale, training suitable for their qualification, and for their role and responsibly. It also includes the participation of employee in decision making. As indicated in table 3.2, most MFIs exhibits good concern with regard to human resource aspect of their responsibilities. However, in the interview it was reported that there is high employee turn over in most of these institutions.

MFIs social responsibility towards their clients and the community includes such factors as

- assessing the level of indebtedness of their clients to avoid over indebtedness ,
- having explicit code of conduct regarding its action toward clients
- providing some types of insurance that frees the family in case the borrower dies and
- assisting the local community through financial support or by participation in the community activities.

In the study it was identified that ADCSI (86%) and Meklit (63%) showed relatively high performance particularly in their effort to promote saving culture among clients but gave less emphasis on their responsibility towards clients. All MFIs exhibited better performance in their human resource aspect of the social responsibility dimension.

3.3 MFI specific Performance

In this section, the main orientation of each MFI with regard to its four social performance dimensions is discussed.

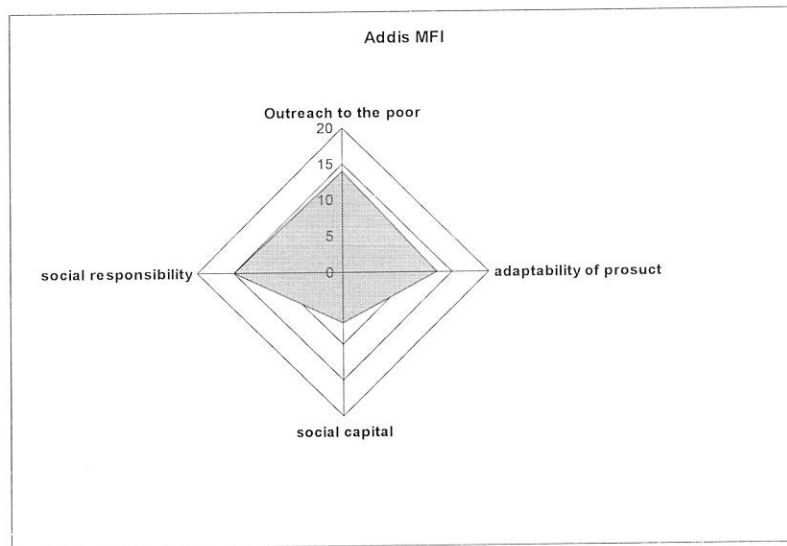
✚ ADCSI

Table 3.3 Performance of ADCS

Dimension	ADCSI	
	score	%
Outreach to the poor	14	0.56
adaptability of products	13	0.52
social capital	7	0.28
social responsibility	15	0.6
Total	49	



Figure 3.2 Dimensions



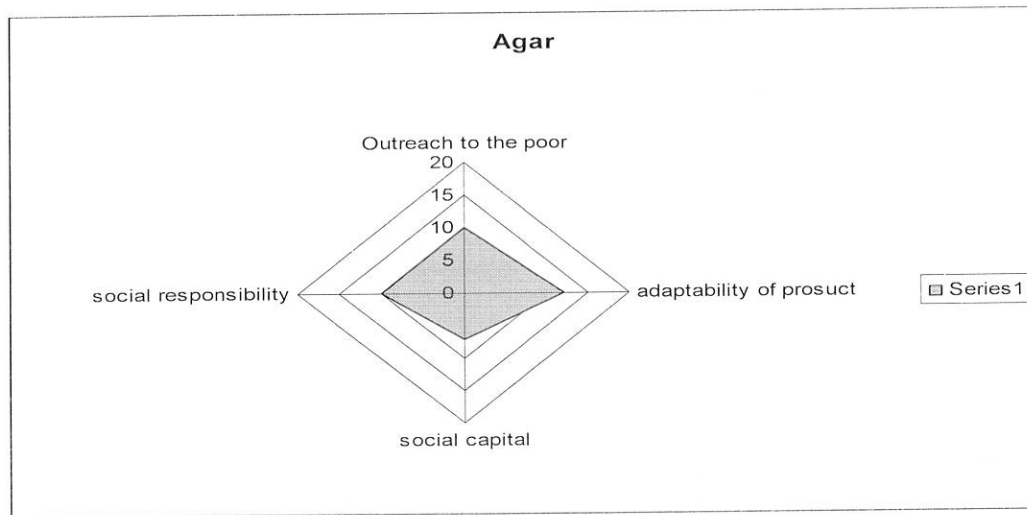
The above figures show better performances of ADCSI with regard to out reaches, product adaptability and Social responsibility. However, it exhibits low score, with respect to its social capital dimension, compared to other dimensions. This indicates its orientation more to the three dimension.

↓ **Agar MFI**

Table 3.4 Performance by dimension

Dimension	Agar	
	score	%
Outreach to the poor	10	0.4
adaptability of products	12	0.48
social capital	7	0.28
social responsibility	10	0.4
Total	39	

Figure 3.3 Performance by dimensions



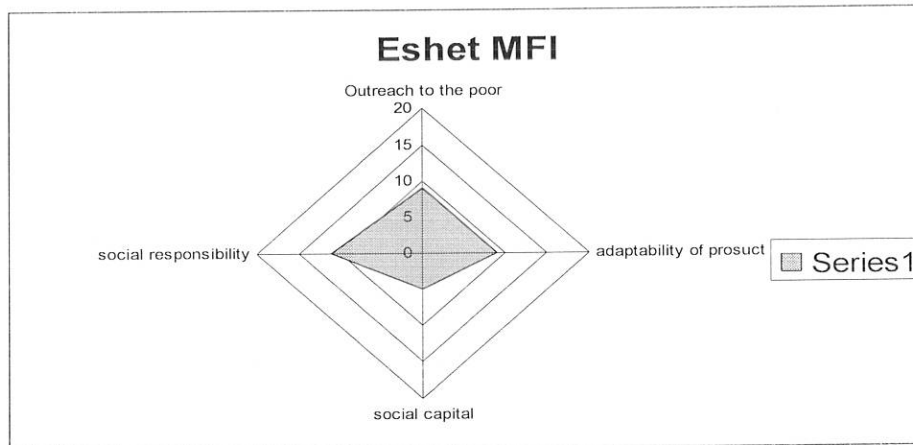
Agar MFI (figure 3.3 , above) has exhibited the highest Score in product adaptability and presents the lowest level of activity in improvement of the social capital of its clients as compared with its performance in the other dimensions.

↓ Eshet

Table 3.5 Performance by dimension

Dimension	Eshet	
	score	%
Outreach to the poor	9	0.36
adaptability of products	9	0.36
social capital	5	0.2
social responsibility	11	0.44
Total	34	

Figure 3.4 Performance by dimension



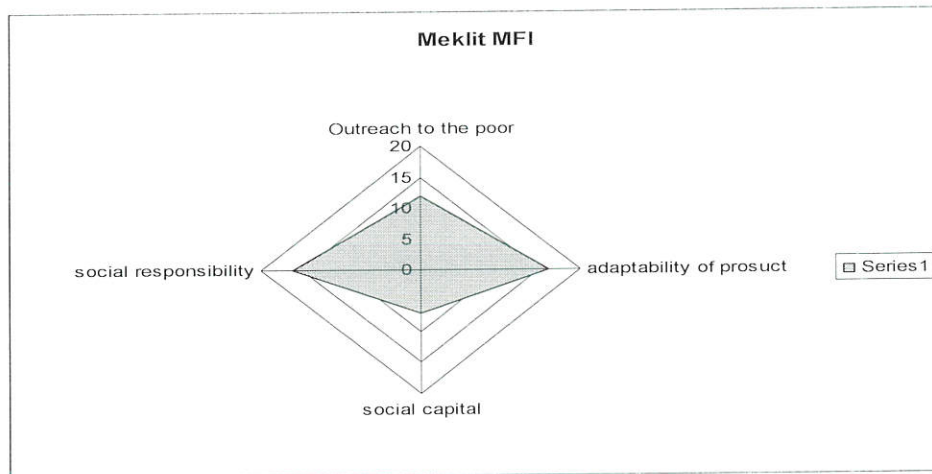
Eshet MFIs (the figure above) showed the lowest performances in all dimensions except the social responsibility concern. This implies that this institution may faces difficulties in achieving its objective.

✚ **Meklit MFI**

Table 3.6 Performance by dimension

Dimension	Meklit	
	score	%
Outreach to the poor	12	0.48
adaptability of products	16	0.64
social capital	7	0.28
social responsibility	16	0.64
Total	51	

Figure 3.5 Performance by dimension



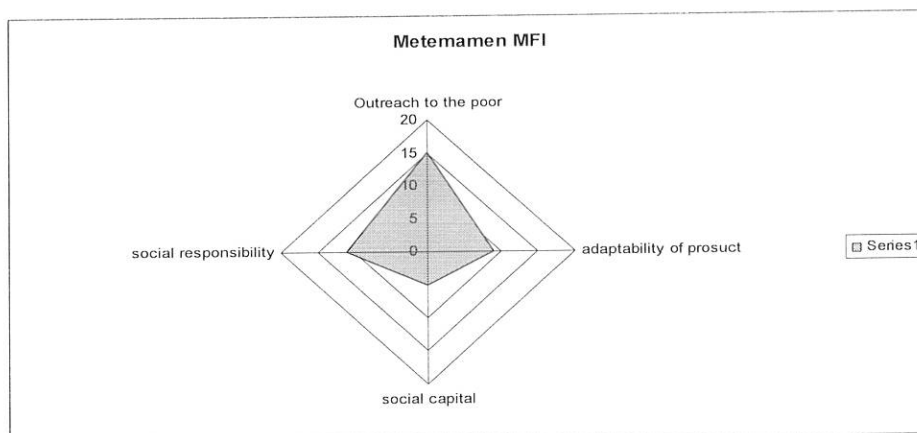
The result obtained with respect to the social performances of Meklit MFI revealed that it has the highest performances in two dimensions, product adaptability and social responsibility. This indicates the attention given by the institution to diversified clients need and its attempt to fulfill its social responsibility. However, it presents the lowest level of activity in social capital building compared to other dimensions.

Metemamen MFI

Table 3.7 Performance by dimension

Dimension	Metemamen	
	score	%
Outreach to the poor	15	0.6
adaptability of products	9	0.36
social capital	5	0.2
social responsibility	11	0.44
Total	40	

Figure 3.6 Performance by dimension



As can be seen from figure 3.6, Metemamen MFI presents highest level of activity in outreach. Nevertheless, it reveals relatively lower level of activity in other dimensions.

Overall, all the surveyed MFIs exhibits lowest attention in improving the social capital of their clients compared the other dimensions.

3.4 Comparing performances of MFIs by major dimensions

Table 3.8 (a) Relative performances of MFIs

Dimensions	Addis	Agar	Eshet	Meklit	Metem.	Average	STD
1.Outreach to the poor and excluded	14	10	9	12	15	12	2.28
2. Adaptation of products	13	12	9	16	9	11.8	2.64
3.Improving social capital of clients	7	7	5	7	5	6.2	0.98
4. Social responsibility	15	10	11	16	11	12.6	2.42
Total(max. 100)	49	39	34	51	40	42.6	6.41

Dimension scale: 0-25

Table 3.8 (b) Relative performances of MFIs

Dimensions	ADCS	Agar	Eshet	Meklit	Metemamen	Average	STD
1.Outreach to the poor and excluded	H	I	L	I	H	12	2.28
2. Adaptation of products	H	H	L	H	L	11.8	2.64
3.Improving social capital of clients	H	H	L	H	L	6.2	0.98
4. Social responsibility	H	L	I	H	I	12.6	2.42

H= above average

I=Intermediate (average – STD)

L= below Average- STD

In order to compare the performances of MFIs, the average and standard deviation (STD) for each main dimensions were computed and their performances categorized as above average (H), intermediate (I) and as below average (L) to indicate the deviation of the performance of each MFI.

If we classify the relative performances of MFI in each of one of the dimension,

- ADCSI and Meklit MFI are distinguished by their above average overall performance. Here, ADCSI presents high in all dimensions. Although Meklit is relatively better than ADCSI in overall performances, it shows average activity in outreach (see table 3.8 a and b)
- Eshet MFI is the lowest performer of all 5 MFIs in all dimensions except in outreach which is an average performance.
- Metemanmen presents lowest performance on product adaptability and on social capital building but highest and average performance in outreach and social responsibility activity respectively

- Agar exhibits lower performance in social responsibility , an average performance in outreach and high performance on product adaptability and on social capital building
- Although ADCSI, Agar and Meklit showed relatively high performance with respect to social capital , as can be seen in table 3.8 (a), all MFI s gave less attention to this dimension compared to the other three dimensions. The absence of sufficient emphasis on social capital dimension may not help in strengthening the relation between the client and the institute, and between clients particularly between those who borrow a loan on solidarity group basis. This may result in loose trust among them and hence may decrease repayment rate and increase transaction cost.

Problems of the MFIs

Lastly, in an interview questions, the Managers were asked to mention the main problem that they have encountered most of the time. Almost all of the respondents stated the following problems:

- shortage of loanable funds
- shortage of experienced human resource,
- inadequate capacity to develop diversified financial products to meet clients needs
- high employee turn over

The managers were also asked to mention the main strategies adapted with regard to outreach to the poor and excluded. The majority of them stated women and existing and potential micro entrepreneurs are their target clients.

CHAPTER FOUR

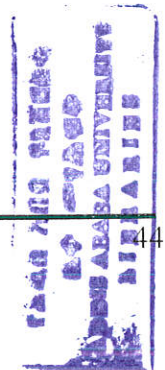
Summary, Conclusions and Recommendations

4.1 Summary

Micro financing is used in any developing countries as one of the poverty alleviation tools. In Ethiopia, microfinance sector is expanding and number of MFIs reached 27, as June 2007. The main objective of MFIs is the provision of financial services to large number of resource poor people. Access to finance helps the poor to acquire assets, diversify and increase incomes and ease their liquidity constraint.

The objective of this research was to assess the social performances of MFIs operating in Addis Ababa. To achieve this objective, the study attempted to find answers for the research question stated in chapter one

Questionnaire was adapted from CERISE Social Performance Indicators Initiative with a certain modification. The questionnaire was for MFIs managers. Interviews were also conducted with these managers. Secondary source of data such as reports and publications were also consulted. The Collected data were sorted out and grouped in to four dimensions of social performance and scores were assigned for each of these questions. The four dimensions represented four clusters of 25 points, or 100 points for each MFI. And this score was used to analyze the data.



Summary of findings

Based on the analysis of the data collected through questionnaire, interview and documents review, the following findings were obtained

- In the study, it was found out that the total market share of the five MFIs under study represent 6.3% of the market share in terms of number of borrowers and 7-68% of gross loan portfolio of the country.
- In the study, it was identified that the number of years of operation does not affect parameters like total assets and market share of Agar and Metemamen MFIs
- From the geographical targeting point of view, all the five MFIs are not targeting a specific area (location) in the city of Addis Ababa.
- In the study, it was identified that ADCSI, Meklit and Metemamen are better performances in using individual targeting devices (such as ownership of productive assets, women, unemployment, etc)
- From the methodological targeting dimensions angle, although all the MFIs showed good performance, both Agar and Metemamen relatively exhibits better performance in addressing the specific need of the target population particularly in reducing barrier by using social collateral.
- In the study it was found out that in delivering a range of products Meklit and ADCSI exhibits better performance particularly voluntary savings where as Eshet deliver a limited

number of products. However, Eshet exhibits high performance in providing quality products (rapidity of service, simple and easily understandable application procedures etc)

- In delivering non-financial services such as business training, training in books of accounts, etc, ADCSI and Meklit are found to be the the higher performers.
- The activities of the five MFIs in the social capital dimension particularly in encouraging clients' participation in organizing and facilitating repayments, and in the definition of services provided by these institutions are insignificant. In addition, their effort is also minimal in strengthening the social capital of their clients' through relationship with other programmes, networks, etc. However, in building trust through transparency, and conducting meeting, ADCSI, exerts the highest effort.
- In the study it was found out that ADCSI and Meklit showed highest effort in promoting saving culture among their clients. However, Metemamen and Eshet are found to be the least performers with regard to their responsibility to clients
- In the study, it was found out that the targeting strategy of most MFIs is to provide access to financial services to women and, micro entrepreneurs. And also, it was found that ADcs, Meklit and Agar provide both credit and voluntary Savings while the remaining two provide a variety of loan products.
- From social capital dimension angle, all of the five MFIs have less orientation towards this dimension compared to other dimensions of each of these institutions. These MFIs

also experienced high employee turn over although they exhibit overall good performance in all aspect of the human resource sub dimension..

- In the study it was identified that Mettemamen, Agar, and Eshet gave less emphasis on their responsibility towards clients, and their community. It was also identified that lack of loanable funds is the main problems of most MFIs.
- Most MFIs reported that shortage of loanable funds , shortage of experienced human resource, inadequate capacity to develop diversified financial products to meet clients needs and high employee turner are the main problems facing MFIs.

4.2 Conclusions

1. Different types of credit arrangements targeted to the poor rely on social ties and interaction, as part of the design and implementation of their delivery and enforcement mechanisms. In the study it was identified that most MFIs employee group lending procedure in providing loan to their clients However, these MFIs gave less or no emphasis at all with regard to social capital aspect of their clients. This may have negative impact on repayment rate and may increase transaction costs of the institutions.
2. Providing diversified products and services helps to fit clients' needs. In the study it was identified that most of the MFIs provide at least more than two loan products. But only two MFIs , ADCSI and Meklit provide particularly voluntary saving services and better non financial services such as training in book keeping , marketing , and entrepreneurship.

However, they are less flexible in scheduling loan repayments for their clients. This may have negative effect on the clients' ability to adapt the loan to their liquidity constraints.

3. Non financial services such as business training, skill training related to finance etc are also important in improving the effectiveness of the financial services provided to clients. However, most MFIs (Agar, Eshet and Metemamen), exhibits poor performance in this regard. Thus these MFIs fail to give more capacity for their as to the use of loans and savings in a more effective way.
4. For microfinance program to be effective, a suitable human resource policy is required. Employee training and their participation in decision making are important for their motivation and involvement in their work. However, the MFIs reported high employee turnover. Thus, this may indicates the weaknesses in their human resource policy and motivation package.
5. There has been a discrepancy between the objectives set by the MFIs and their actual performance to achieve those objectives.
6. Lack of laonable funds is the main problems of most MFIs. This problem will have a negative effect on the operation of MFIs in reaching and serving a large number of target clients.



4.3 Recommendations

Based on the conclusions made in the previous section the following recommendations are given

- MFIs need to build their clients' social capital so as to develop trust between the institution and their clients. This will enable MFIs to reduce transaction costs and increase repayment rate.
- In order for MFIs to meet their clients needs, they need to provide different types of loan products, voluntary saving services, etc.
- To supplement the financial services and build the capacity of their clients' as to the use of their services , MFIs that exhibit poor performance in non financial services need to exert maximum effort in providing such services either by themselves or through their partners.
- The problems of high employee turn over need to be addressed through various incentives, benefits , and intrinsic motivation
- MFIs action should be based on objectives set. Objective based actions would enable MFIs to evaluate their performances and to use their resources effectively
- MFIs play significant role in enhancing the income of poor people by providing access to financial services. Shortage of loanable funds affects the sustainability and outreach performances of MFIs. Therefore, commercial banks, development organizations, NGOs and the government need to consider the contribution of MFIs in poverty reduction and in reducing the vulnerability poor people and extend their support.

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Annex

FIRST PART: CONTEXT AND SOCIAL STRATEGY OF THE INSTITUTE

1. History, values and social mission of the institute

a. When and how was the MFI created?

b. Who are the main stakeholders and what is their social interest?

c. What would be the main values that characterize the action of the MFI?

d. Does an explicit formulation of the institute social mission exist?

Has it changed since its creation, in particular in relation to the growth of the institute?

e. Are the social objectives of the institute shared among the stakeholders (managers, staff, clients, other people involved in the institute)?

f. How is the institute management ensuring the fulfillment of the social mission?

- No *attempt*
- yes, only at the top management
- Among most of the employees
- Yes for all employees and clients

g. How would the senior management of the institute rate the objective of financial sustainability?

- Nothing is done
- written in the administrative rules with clear communication of practical mission focus to staff at all levels and to clients
- written in the MFI statutes with internal system to monitor and report on mission compliance

h. How would the senior management of the MFI rate the objective of financial sustainability?

- Minor objective
- Important objective but can not be reached in the short term
- Major objective to be reached with in to 2 to 3 years
- The institution is already financially sustainable

2. Social strategy of the institute

a. What is the strategy of the institute regarding outreach to the poor and the excluded?

b. What are the strengths and weaknesses of the economic, social and cultural environment that facilitate or limit the implementation of a strategy regarding the poor and the excluded? _____

c. What is the strategy of the institute regarding the adaptation of services and products to target clients? _____

d. What are the strengths and weaknesses of the economical, social and cultural environment that facilitate or limit the implementation of a strategy to adapt the products? _____

e. What is the strategy of the institute regarding the improvement of the social and political capital of its clients? _____

f. What are the strengths and weaknesses of the economical, social and cultural environment that facilitate or limit the implementation of a strategy regarding social and political capital? _____

g. What is the strategy of the institute regarding social responsibility? _____

h. What are the strengths and weaknesses of the economic, social and cultural environment that facilitate or limit the implementation of a strategy regarding social responsibility? _____



3. Main social objectives of institute

How would the institute rank the following in terms of social objectives to be reached?

	Not an objective	Minor objective	Important objective	Major objective
Outreach				
Adaptation of services and products				
Improving Social and political capital				
Social responsibility				

SECOND PART: SOCIAL PERFORMANCE OF MFI

1. Outreach to the Poor and the Excluded

1.1 Does the institute use any of the following targeting devices for improving its depth of poverty outreach?

	% of the current new client selected
Indicators based on objective client conditions	
participatory wealth ranking	
Other, specify _____	

1.2. How does the institution insure quality control in the use of the tool?

Nothing is done Informally Formally cross checking of the information

1.3. Does the institute agreed provide downs secured only by "social collateral"?

	% of the outstanding loans
Solidarity group	
Recommendation by trusted third party	
Physical guarantees which have very low commercial value but are important for the borrowers	
Other, specify _____	

1.4. Does the institute develop specific policies or methodologies (except for social collateral) to reach and /or to facilitate access for an excluded population or poor clients?

Yes No

If 'yes' please describe the specific policy (policies) together with the percent of outstanding loans _____

1.5. Over the last 12 months, what is the distribution of loan size (loans disbursed - at individual level, on average)?

Loan size at individual level	Percentage of total loans
_____	_____
_____	_____
_____	_____
_____	_____

1.6. What is the size of the minimum installment amount, for loans with monthly repayments? (At least 5 % clients can pay with this amount) _____

1.7. What is the minimum amount to open a savings account and make regular deposits? _____

1.8 What is the percentage of female borrowers?

What is percentage of outstanding loans (in number): _____

1.9. How does the MFI classify clients in terms of individual targeting?

	% of current clients
Workers with unsecured status (no assets and uncertainty of daily employment) such as casual laborers	
entrepreneurs who are setting up their activity	
Vulnerable social or ethnic groups	
Illiterate people	
Other targeting criteria, specify: _____	

N.B. Different boxes can be checked. However, one person (group of individuals) who satisfy different criteria should be counted once.

1.10 What is the percentage of clients who are among the "very poor," (very poor defined as those who either live on less than a dollar a day or who are in the bottom half below the country's poverty line)?

- Not known Less than 20% of the clients More than 20% of the clients

2. Adaptation of Services and Products to Target Clients

2.1 How many different types of loan product does the MFI provide? (the difference may be: purpose, duration, type of guarantee, interest rate, repayment schedule etc)

- Only one or two More than two

2.2 Does the MFI provide social/emergency loans?

- No Yes

2.3 Does the MFI provide loan products specifically tailored to clients' social needs?

- Housing Education Loans above 12 months

Other, specify: _____

2.4 What is the flexibility of repayment for the clients?

- one pattern for all the loans
 the institute uses different pattern proposes different
 the schedule is decided with the clients when receiving the loan

2.5 What is the importance of voluntary savings products within the MFI?

- No voluntary savings products (or it concerns less than 5% of the clients or only 5% of the volume of the outstanding loans)
 Voluntary savings services provided by the institute (or through another financial institution)

2.6 Does the institute provide voluntary savings specifically tailored to clients' social needs?

- No Yes

If 'yes', specify saving products provided

2.7 Does the institute provide innovative financial services accessible to more than 5% its clients (directly or through links with other specialist organizations)? (such as money transfer, pay check)

No Yes

2.8 Are loan officers leaving the institute premises to visit their clients for regular financial transactions? (Such as loan application, loan disbursement, repayment, collection of savings, not including visits relating to repayment problems)

Yes No

If yes, ^{Number} of clients served _____

2.9 What has been, on average, the time between the application for the first loan and the disbursement of the loan, for new clients over the last 12 months? (Including training, unexpected delays due to constraints such as liquidity shortages, lack of availability of loan officers, etc.)

2.10 Do clients receive written statements of each of their financial transactions?

- No written statement /no information at all
- The client knows /informed/ at the time of each repayment, the capital and interest to be paid
- Written statements that shows the difference between the amount of principal and interest to be paid

2.11 Does the institute have a specific policy to facilitate access to financial services? Such as Specific opening hours (market days, late or early opening, etc.), Simplicity and easy understanding of application forms and procedures, reducing time spent by clients etc

No Yes

If yes, specify _____

2.12 Over the last 24 months, did the institute conduct market surveys to improve the quality of services to clients?

- Never
- Informal discussion we some clients /formal analysis of the information collected for loan applications /
- Surveys of clients and non clients with analysis of the results and execution plan/ formal and regular participation of clients in consultation proceeding/

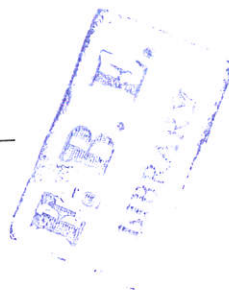
2.13 Does the institute know the various reasons why clients dropped out or are inactive?

Drop out or inactive=No transaction on credit and savings for more than one year or last financial year

- No
- Yes

If 'yes', specify the reason _____

2.14 What is the percentage of client drop-out or inactive clients over the last 12 months (number of drop-outs over the average number of clients over the last 12 months/financial year) _____



2.15 Does the institute have a specific and pro-active strategy to associate non-financial services with financial services for clients (directly or with partnerships)?

- No
- Yes

Does the MFI ensure that clients can have access to the following non financial services (within the same organization or with formal partnership and cooperation with other organization)

2.16. Non-financial services related to financial management (business training, management of family budget, etc.)

- No
- For some clients (or for all) on a compulsory basis
- For all clients on a voluntary basis



2.17. Non-financial services related to social needs (literacy training, health services, access to social workers, gender sensitization, etc.)

- No
- For some clients (or for all) on a compulsory basis
- for all clients on a voluntary basis

3. Improving Clients' Social and Political Capital

3.1 Do clients have access to the institute's financial statements?

- No On request Through publication and/or a presentation meeting
 Other, specify _____

3.2 Does the institute provide opportunities for discussion in case of conflicts / claims or complaints between the client and an employee of the institute?

- the loan officer or cashier is the client's only interlocutor
 the client can meet a manager, if need be
 there is a specific procedure or person in charge of dealing with conflicts.

3.3 What is the percentage of growth (or decline) over the last 12 months in the volume (or number) of voluntary savings collected?

- Decline No saving services
 Stable or less than 5% increase More than 5% increase

3.4 Can the clients of the institute participate in any decision making proceedings? (at client or institution level through their representative)

- No Yes

A. proceedings for decision making at the clients level (for issues such as how do clients decide to facilitate repayments, how is repayment No organized

- Yes No

If yes, are the representative elected

- No yes

B. proceedings for control and decision making at a MFI level (clients involvement in governance structure)

- Yes No

If 'yes', are the representative elected

- Yes No



3.5. Is there an effective system of rotation for participating clients (in 3.4 a and/ or 3.4 b)

Yes No

3.6 What is the percentage of women among client representatives? (if clients are represented)

No women representative Few women representatives

About the same proportion as female clients

3.7. Is there a system of training for representatives /elected clients to help them fulfill their mission in these proceedings?

No Yes, on irregular bases

Yes, on regular bases, planed in the strategy and related to the rotation of representatives

3.8 Have the institute operations sought to strengthen the social capital of the clients it serves (through careful group formation, collective action, cooperation towards common goals, relationships with other programmes, facilitation of access to previously inaccessible services, etc.) ?

yes No

If 'yes', describe _____

3.9. Does the MFI facilitate the local creation of skills for management or leadership? (training for team building, representation etc; valuing local skill in management etc)

No Yes, on irregular bases

Yes, on regular bases, planed in the strategy and related to the rotation of representatives

3.10 Have the actions of the MFI and the relationships created between clients, and between clients and local socioeconomic stakeholders, created a network space for discussion to share and resolve some of the clients' problems beyond access to financial services? (Such as access to public services and goods, legal problems, security in the community etc) Yes No

If 'yes', specify _____



3.11. Have the MFI's operations sought to increase its clients influence with local or national government (the MFI individually or through participation in the MFIs networks:- MFI can participate in shaping of the national public policy of microfinance to the benefit of their clients and their activities)

Yes

No

If yes, specify _____

4. Social Responsibility of the Institution

4.1 Does the institute have a salary table, (given to each employee), which has a salary defined for each job description and which is updated regularly?

Yes

No

4.2 Does the institute have an annual training plan for staff which accords with different job descriptions?

Yes

No

4.3. If training is provided by a the MFI or by other training institute (paid by the institute or subsidized)

Yes

No

If 'yes', describe _____

4.4 Can the employees participate in decision-making?

No

Yes Through specific and regular information and meetings between staff and senior management

Yes Through an elected consultative body or through participation in governance

4.5. Does the MFI provide sometimes of healthy coverage for its employees?

Yes

No



4.6 How many employees have left the institute during the last 24 months, as a percentage of the average number of employees (voluntary departure, dismissal, end of contract, etc.)?

- more than 15 % less than 15 % less than 5%

4.7. Has the MFI ever conducted studies to assess the social and economic impact of the services it provides ?

- Not done in the last 2 or 3 years
- Yes, interviews /focus group discussion with clients/; qualitative information collected with loan application
- Yes impact study conducted on a sample of clients and leading to a formal analysis of the result

4.8 Has the institute ever had to change its products and services due to negative impact on social cohesion or client welfare (in particular its loan collecting strategy)? (except for indebtedness)

- not studied
- studied but no changes made so far
- studied and no problems recorded
- studied and changes made after identification of the problem

If changes made, specify _____

4.9. Does the institute study the level of indebtedness of its clients and take measures against over-indebtedness?

- Not studied
- Studied but no changes made so far
- Studied and no problems recorded
- Studied and Measures taken after identification of over indebtedness

If measures taken, specify _____

4.10. Does the MFI have a written/explicit code of conduct regarding its action towards clients?

Yes No

If yes, specify _____

4.11. Does the MFI provide some types of insurance that frees the family from the burden of debt in case of death of the borrower?

No Only for some loans

Yes for all loans

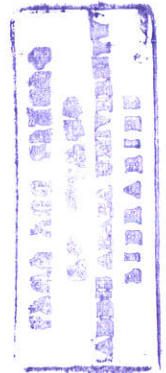
If "only for some loans", which types of loans with insurance

4.12. Does the MFI verify that its actions are in harmony with local cultures and values (such as clients and the community are not disturbed by the MFI activities)?

No specific action over the last 2 years

Information has been collected

If information has been collected, what kind of information



4.13. Does the institute have an action that can positively change the local culture? (to enhance women's empowerment, democratic decision-making, transparency, to fight against corruption, etc.)

Yes No specific action

If 'yes', what kind of action/values? _____

4.14. Does the institute have a specific policy regarding the types of activity financed by individual loans with "high social value" for the local community?

	% of outstanding loans
Local start-up business in order to finance risky but innovative activities	
Activities that have a positive social impact (on environment, on job creation, on social services, etc.)	
Other, specify _____	

4.15 How often has the MFI assisted the local community through financial support (grants or collective loans) for community projects (schools, hospitals, religious premises, participation in local traditions, support/sponsoring of local cultural events, sport, etc.) or active participation in local social activities (through promotion by the MFI and/or participation of staff)

- Never in the last 2 years
- On an irregular basis (and less than 1% of the loans or less than 5% of the annual profit / occasional participation of staff)
- On a regular basis, in the rules of the MFI (more than 1% of the loans or more than 5% of the annual profit / high and regular participation of staff)

If the MFI assisted the local community, forms of participation

4.16 Has the MFI implemented a system of solidarity between the different branches of the institution (solidarity with new branches, with branches operating in difficult environments, etc.) or between the different loan products (cross-subsidization)?

- No
- Some degree of solidarity, but informal mechanisms
- Yes, through formal strategy (funds, difference in interest rates, etc.)

4.17. Does the MFI adopt special measures/have special funds in case of collective disaster?

- No
- Measures taken on a case by case basis
- Funds or reserves are available in case of collective disaster

If measures are taken specify the measures:



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Funds or reserves are available in case of collective disaster

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Interview Questions

1. What is the strategy of the MFI regarding outreach to the poor and the excluded?
2. What are the main problems facing an MFI?

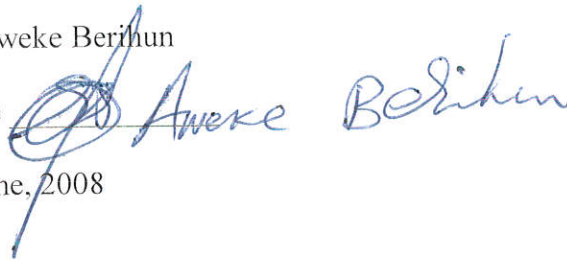
Declaration

I, the undersigned, declare that this project is my original work, has not been presented for the degree in other university and that all sources of the materials used in this project have been dully acknowledged.

Name: Aweke Berihun

Signature

Date: June, 2008



This project has been submitted for examination with my approval as a university supervisor

Name of supervisor: Tariku Atomsa (PhD)

Signature _____

Date: June, 2008

