

ACHIEVEMENTS AND CHALLENGES OF MICROFINANCE INSTITUTION IN ETHIOPIA

THE CASE OF ADDIS ABABA

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Abstract This paper presents achievements and challenges of Microfinance Institutions in Addis Ababa, Ethiopia. When traditional financial institutions have failed to provide the service to help the poor, MFIs were developed to fill this gap. The research address there institutions working in Addis Ababa. The author´s interest in this topic was enhanced through her personal experiences of living in Ethiopia were examples of acute poverty were abundant. As a poor and developing country, there are many households who lack food to eat and many daily needs. Couple with the economic crisis in 1990s and hunger crisis in early 1980s, life has never been easy with many and till date many are still struggling to meet up with life. This is worst in the rural areas where farmers live a hand to mouth life. Many parents also lacked the means to sponsor their children at school because of low income. The type of farming that many do is for subsistence hence, what they are doing really improving their life and removing them from the poverty line. When microfinance started n the 1990s, the aim was to alleviate people from the low income. So we need to examine how the microfinance concept has helped in dealing with poverty and what has been achieved so far. The data for the study was gathered from primary and secondary sources, and various rations and indicators were used to measure the performance of the Microfinances institutions. The data from 2002-2007 was used to see the trend in the performance. In conclusion, all the MFIs studied were not sustainable and profitable without subsidies. The most MFIs studied are strong performers in outreach but are very weak when it comes to ROE. All the MFIs studied did not have an MIS system to finally automate their operation; the trend in the performance of microfinance institutions during those years of operation was encouraging.		
Keywords Microfinance, microfinance institution, microenterprise, microfinance Policy, National Bank of Ethiopia, Grameen Bank, World Bank, world fact book,		
Miscellaneous		

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Abbreviations

A.A.: Addis Ababa

ADCSI: Addis Credit and Saving Institution

ADB: Asian Development Bank Institute

AEMFI: Association of Ethiopian Micro Finance Institution

CGAP: Consultative Group to Assist the Poor

CBO: Community Based Organization

IFAD: International Fund for Agricultural Development

MFI: Microfinance Institution

MoFED: Ministry of Finance and Economic Development

NGO: Non Governmental Organization

NBE: National Bank of Ethiopia

ROE: Return on Equity

SFPI: Specialized Financial and Promotional Institution

SDI: Subsidy Dependence Index

WHO: World Health Organization

1 INTRODUCTION

Microfinance is regarded as poverty alleviation among the most stricken led to the creativity of making small informal microfinance.

When microfinance was started in the 1990s, the aim was to alleviate people against the effect of low income. Since then, they have either achieved their aim or are still working on it facing related challenges.

The Microfinance institutions help the poor to start their own initiatives and to build assets for their economic security. Conventional financial institutions such as banks fail to lend money to the poor for many reasons. Hence, the poor rarely have a chance to get financial support from them. As a means of getting rid of poverty, Muhammad Yunus from Bangladesh created the formal microfinance concept in 1990s.

Before the creation of the microfinance concept, there have been different microfinance institutions some of them very informal. Microfinance institutions have long existed in most developing countries but in a more traditional way and under different names depending on the country.

In Ethiopia, poverty and food insecurity are fundamental issues of economic stability.

As a poor developing country, there are many households that lack food to eat along with many daily needs. Coupled with the economic crisis in the 1990s and the hunger (famines) crisis in the early 1980s, life has never been easy and till date many are still struggling to meet up with life. This is worst in the rural areas where farmers live a 'hand to mouth life'. Many parents also lack the means to sponsor their children at school because of low income. The type of farming that many do is for subsistence. Hence, what they are doing is really improving their life and removing them from the poverty line.

1.1 Conceptual Definition of Microfinance

There are many definitions of microfinance but for the purpose of this study a few authors were selected shown below.

Alemayehu (2010), defined microfinance as a provision of financial services to low income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services.

According to Grameen's foundation, Microfinance is sometimes called the 'banking for the poor'. 'Microfinance is an amazingly simple approach that has been proven to empower very poor people around the world to pull themselves out of poverty. A key to microfinance is the recycling of loans. As each loan is usually repaid within six months to a year the money is recycled as another loan, thus multiplying the value of each dollar in defeating global poverty, and changing lives of communities(Grameen Trust, 1995).

Microfinance helps the poorest people to work their way out of poverty for good. Giving the loan to help empower women to start their own businesses, enabling them to feed their families everyday (Microloan foundation, 2005).

Microfinance also known as micro credit, as small loans offered to poor households to foster self-employment and income generation (Fazle, Hasan & Abed, 2006).

Yacob (2007), opines that microfinance is the supply of loans, saving, and other basic financial services to the poor.

As the author puts it, Microfinance is a means of getting financial support to start a new business, help to be self-employed. The author has witnessed microfinance instructions letting the people become hard workers by giving them specific time to pay their loans. The poor need to pay their loans back within certain time limit. Thus this system makes them active and productive.

1.2 Purpose of the research

The purpose of this study is to explore how microfinance has succeeded in providing short term loans to micro businesses and how their services could be improved with the use models that have proven effective in microfinance studies. It aims at supporting the opinion that microfinance is an indispensable tool for sustainable development and poverty mitigation in Ethiopia. Thus it will examine challenges faced by microfinance in providing the short term loan and their accomplishment.

1.3 Statement of the research problem

Microfinance has been used as a powerful tool in alleviating poverty in recent years and this is supported by research (Jonathan & Barbara, 2001). The impact of microfinance on women raised their status within their communities and has helped empower women in general with their own economic power. Befekadu, (2007) opines that microfinance establishments in Ethiopia are still taking shape. Their target populations are the low income earners who are unable to secure a loan in a conventional commercial bank. Thus it aims at providing assistance to these groups of people within Ethiopia.

Ethiopia like many other developing countries has many microfinance institutions. The World Bank (2006) estimates that there are about 7000 institutions worldwide and this number serve a huge population estimated to be about 16 million. A well-managed microfinance institution can generate a significant return in investment. It was estimated in 2006 by the World Bank that about 2.5 billion is handled by microfinance worldwide.

About 80% of Ethiopians live below the poverty line with less than 2 dollars a day (WHO report 2006). Those peoples who live below the poverty line they lack adequate means to have access in conventional financial institutions the reason being that they don't have collateral or are not trust worthy. Their only solution as of then was traditional money lenders who charged astronomical

interest rates. As a matter of fact Microfinance came in as relieve to the poor as the only formal financial institution that can lend money to them. As earlier mentioned, the growth and rapid increase in microfinance is indirectly a tool to eradicate poverty. Even though the expansion of microfinance institutions is a good signs of poverty alleviation, things might not change if these microfinance institutions do not have policies that will favor the low income earners to borrow money and reinvest into businesses that will force them ahead.

1.4 Research questions/objective of the study

1. What are the achievements required of the application of microcredit in Addis Ababa, Ethiopia?
2. What are the challenges of microfinance in Ethiopia providing sustainable loan services for the people?
3. What are the major constraints imposed by the legal and regulatory framework on microfinance in Ethiopia?
4. What should be done to improve the governance and transparency of microfinance in Ethiopia?

The study aims at investigating the achievement and challenges of microfinance in Addis Ababa-Ethiopia. The achievement in this study will be used to see how the microfinance has helped to alleviate people against poverty and how peoples' life has improved through the loans they received from these financial institutions.

By achievement, is meant what the existing microfinance institutions have done to reduce poverty in Ethiopia and by challenges, is meant what are the inhibiting factors now and in the future for the microfinance institution to do their operations or work as required and what needs to be done or ways of improving the functional ability of the microfinance system to give loans to low income earners and to reach to the rural areas where people need them more. Everything with the institution should be as transparent as possible and avoid discrimination among the needs. It should be a need based and not a network institution where some people are favored against others and vice versa.

1.5 Background of the study

Ethiopia has a population of 90,873,739 million (World fact book, 2011) and a surface area of 1,104,300 km². The capital city of Ethiopia is Addis Ababa and it alone has a population of 3,384,569. The income per capita is \$1,000. The income per capita is too low to cover the cost of medication, education, food amongst others (ibid, central Intelligence Agency, 2011).

A report of the Ministry of Finance and Economic Development in 2010 showed that the average growth rate in 2003/4 was strongly sustained by some sectors like Agriculture with 10%, Industry 10%, and service sectors with 13.2%.

Although there are changes in the income and saving, and in growth in general in the country the implementation of the policies have been a problem coupled with high unemployment rates because of lack of education. Also modern industrialization is too slow. The main employer for many is agriculture which is also mainly pursued for subsistence. The livelihood of about 84% of the population is dependent on it. (World Bank, 2004).

With the challenge of the current climate change in the world with high effects anticipated in the developing countries, Ethiopia is not spared of this and it has a negative effect on the plans of national economic development. Instead of planning for economic development alone, the government now considers the climate change issue as a problem of safeguarding the climate for the future generation.

A report issued by MoFED suggested that the government of Ethiopia should concentrate on small and medium sized businesses. They also emphasized the increment in the financial institutions and microfinance activities in rural and urban set ups.

Information from the World Fact book (2011), reveals that 38.7% of Ethiopians live below poverty line. According to the information gathered in 2005, the lowest household income was 10%:4.1% while the highest was 10%:25.6%. The poverty line or poverty threshold is defined as the minimum income needed to live according to an adequate standard in a given country. In the past, a country like Ethiopia would be expected for its citizens to have a

dollar per day but the World Bank changed the figure to be 1.25 dollar per day. (World Bank, 2010).

Absolute poverty itself is defined as a lack of money or certain materials for making ends meet. These materials are considered to be basic human needs and are food, health care, education, clothing, portable water and shelter while relative poverty will be defined as lack of an acceptable level of resources compared to others within a country or society.

A new strategy of eradicating poverty in most developing countries is through microfinance and this has been in Ethiopia as well since 1994/95 (IFAD report, 2009).

As a strategy to alleviate poverty in Ethiopia, the government has put in place reforms more especially in areas where the poverty is higher or highly visible. These are areas like rural or peripheral territories where farms to market roads and banking system are totally lacking. In order to pursue this goal of poverty eradication, the government formalized microfinance institutions with proclamation No 40/1996 establishing the license and monitoring of MFIs in accordance with commercial banks and as share companies.

Apart from the banks and insurance companies in Ethiopia as vital institutions, MFIs have been playing an instrumental role in providing loans and saving facilities for small businesses and private individuals who had lacked these services in the past in different small sectors of the country's economy.

Statistics so far indicate that the booty or the ideas of establishing microfinance institutions have mostly benefited mostly the people in the rural areas.

Microfinance has long been considered an economic development and a way of poverty alleviation. This approached of economic development changed the life of the poor people using microfinance service, the institutions help to empower the poor to establish their own businesses and that has help them a long way with some progress for witnesses over the years.

1.6 Hypothesis

Microfinance institutions become well known in Ethiopia, it helps the poorest financially and they can change themselves using the program. The program has proven to be an effective tool for poverty reduction.

Microfinance institution found in Ethiopia specially in Addis Ababa relying on group lending method, which is collateral free loan. Group lending methodology has been a primarily choice for the poor people who have no chance to access capital for business. This model however has weakness and I believe in proposed research the following drawbacks of MFI might be observed.

1. MFIs involve too much of external subsidy, which is not replicable and they have not oriented themselves towards mobilizing peoples' resources
2. MFIs do not have links to formal sectors which results shortage of funds
3. Government has rigid regulatory framework especially in interest rate setting which undermines sustainability of microcredit.

1.7 Significance of the study

The implication of this study is to come out with a microfinance institution that can source for capital out of Ethiopia from private sources and be self sustaining. This will ease expansion and hence the outreach to both poor men and women across the country will be astronomical.

The significance of the study can be viewed on three perspectives as indicated below

1. From government perspectives:
Government plays a vital role in helping Microfinance institutions by creating good legal framework, adequate information, and supportive

regulations. Keeping in mind the above mentioned facts the researcher has some suggestions and actions to be taken by the Ethiopian government regarding MFIs.

2. From donors perspectives:

Microfinance sustainability depends on donors fund in development goals such as rural development, poverty reduction and empowerments of women. Donors could also know from a research point of view a different insight of what is really happening with MFI and their funds.

3. From MFI perspectives:

The research is also intended to give sound suggestion regarding the outreach, self-sustainability of their operation based on profitability, efficiency and portfolio quality.

1.8 Research Method

Research method is an acceptable and crucial way of searching new knowledge that uses acceptable scientific methods in finding answers of what we are pondering and in a more professional way. It also solves problems and helps create new knowledge through the method applied for the research. It establishes facts through its investigation applied in a systematic way through patience and careful planning to bring in principles or facts.

In this study, the researcher used quantitative method in its data collection. A quantitative method is used in this research with a survey as an instrument for the data collection. The researcher chooses this method to seek information from the respondent's. In quantitative method the researcher tries to see the impact of microfinance on poverty reduction in Ethiopia included research questionnaire. The strength in using quantitative method are we can state the research problem in very specific way, set the research goals, reliability of gathered data. The weakness using quantitative data are failures to provide actual information, difficult to control respondents in survey. Data will be analyzed through tabulation.

The data for this study was collected through a self-developed questionnaire. It consisted of basic information and general information about the study that were addressed directly to three MFI based in Addis Ababa. The questionnaire was prepared in English language; the respondents know and understand about the research objectives so there was no need to translate it into Amharic. The questionnaires were distributed via emails, online survey and mails. The responses were later on send to me through my email address and regular mail. The questionnaire consisted of about forty-two questions. Both closed and open ended questions were included for convenience of respondent.

Also an information sheet accompanied the questionnaires and it gave detailed explanation about the study.

The mailed questionnaires were distributed by my research assistant who administered them and later on sent them to me. The aim of the whole process of the questionnaires were to be responded by email but some respondents never had emails so I decided to send them to a trusted person who printed them out and distributed them to the respondents. The assistant researcher went round and collected them for onward transmission. I received them through the post office.

The sampling method was random. Everybody in the selected institutions was expected to respond I have seen research papers with lack of actual data in case of asking institution as a whole, so I prefer to use individual opinions to get actual information since the number was limited to three institutions.

Among these samples, 10 were male and the remaining 13 were females.

Among 20 samples to each institution only 23 were valid or respond on time.

Although I have tried to convince respondents using email and send someone to give and collect the questionnaire to fill, some of them were not willing to respond or couldn't find in their place during survey.

Other sources of data helped to substantiate this study. These sources are data from journals, books, reports, nongovernmental and government organizations. Glaring examples are different sources of information were Association of Ethiopian Micro Finance Institutions (AEMFI) and National Bank of Ethiopia.

Data Analysis and interpretation

Since the empirical data for the study was a questionnaire, implying the data was more of quantitative. The researcher used the tabular format to analyze the data. A generalization was made after these.

In order to generate information from respondents I use some closed and open ended questions.

According to Kenneth N.Ross (2005) some closed questions may have a dichotomous response format only two mutually exclusive responses are provided.

In case of open-ended questions it allows respondents to express their ideas spontaneously in their own language, but it is difficult to analyze, require effort and time on behalf of respondent. (Kenneth, 2005)

Limitation of the study

Microfinance Institution is accepted solution in improving life in Ethiopia and applied all over the country and assessing all the enterprises in the country would make the finding fruitful. However, because of shortage of time and resources this study is limited to Addis Ababa because of accessibility of documentation and other records. The researcher would have love to carry out a study in the whole of Ethiopia but unfortunately, this study limits me for my BSc and a particular time is required for me to complete. Therefore it has a limitation for not having all statistics about the whole country so that generalizations can be made on what has been done and what needs to be done.

Organization of the Study

The research paper is organized in to four Chapters. Those chapters deal with many points of views raised, identified facts and basic information regarding MFIs and related points with finding and recommendations.

The first chapter deals with the introduction, provides information on the main themes of the study and justification for the research problem. It also looks

the choice of methodology and describes the source of data, data collection techniques, methods of data presentation and analysis. The second chapter mainly focuses on theoretical framework of literature review on the topic of the study. The third chapter deals with annual report of the selected institution. It will also respond to the four key research questions. The final chapter which is chapter four is the conclusion and recommendation.

2 LITERATURE REVIEW

In the case of formal Microfinance, the idea of helping poor people by giving loans is new; however, the idea has always been there but in an informal way. Informal money lenders grant loans with interest, family loans are traditional ways of lending money which have long existed in many developing countries like Ethiopia and still used.

The poor people in most developing countries have practically no access to formal financial services. (Gobezie, 2005). The most traditional way of lending money exists in developing countries, they have a way of calling it but it includes the same idea as a loan. In Ghana and Nigeria for instance, it is called 'Esusus', in Sudan it is called Sanduk, in Cameroon, Senegal, Niger and Togo it is called 'Tontines' and in Ethiopia is called 'Ekub'.

According to Gobezie, (2005) Ekub is the local way of rotating saving and credit with the members of the Association. In Ekub, group members meet on a fix schedule to collect contributions of an equal amount from the members and to allocate the amount to one member. Ekub has an important part culturally and economically. Gobezie, 2005).

2.1 History of MFIs

Traditionally, the idea of poverty has long existed with the old culture of microfinance where people were encouraged to start businesses when it was their turn to take the contribution. But the modernization and rapid urge for people to get rid of poverty led to the legalization of microfinance worldwide in

a unique form. This modern microfinance was first created in Bangladesh by a German bank (David, 2008).

Another term for microfinance is microcredit although they do not have exactly the same meaning but are interchangeable. It is called microcredit because it gives out small loans to poor people (Grammen Bank, 2011).

The 21st century microfinance system emerged from a group of poor people in Bangladesh in a form of a small microcredit. It started in 1970s with Dr Mhumammad Yunas being the brain behind it. He gave money to start a small scale business with 27 US dollars. They started with the making of Bamboo chairs. With the small amount he gave out to women, he understood the women could survive taking care of their families and themselves. In 1980s he started the Grameen Bank. This bank gave out loans of about 300 US dollars. The money was aimed to helping the poor to be able to sustain themselves but the interest rate was as high as about 98%. Today the bank recounts a success story of what they did in the 1980s. The Grameen banking system of alleviating people against poverty has been a model to many other countries such as Nepal, India, USA and Norway. According to the statistics produced by World Bank (2005), about 7000 microfinance institutions exist, serving about 16 million inhabitants in the world.

History of MFI in Ethiopia

Micro financing in Ethiopia was started in 1994/95 to reduce poverty, and since then developing microfinance in Ethiopia has encouraged the further spread of modern financial services in the country. The program believes to reduce the poverty by giving loans for the poor. (Gobezie, 2005).

Licensing and supervision of the microfinance institution proclamation No.40/1996 encouraged to extend formal microfinance institution (MFI) in Ethiopia in a sustainable way.

Beside banks and insurance companies, Microfinance institutions have continue to play a significant role in giving credit and saving facilities to the micro sectors of the economy.

The annual report of the National Bank of Ethiopia (NBE), 2008/2009, notifies that the number of MFIs have reached 28 having a total capital and assets of

99,697,392USD (Birr 1.7 billion) and 387,060,463USD (Birr 6.6 billion), respectively.

From those microfinance's found in Ethiopia developmental growing in mobilization and credit provision activities flow to 34.5% and 10.3% respectively, they play a vital role in economy and reducing poverty. (National Bank of Ethiopia, report 2008/2009).

2.2 Financial Services for the poor

It is obvious poor people's need to have financial support to change their life and the family in case of Ethiopia most poor people save most of their income in informal way. However widely used informal savings mechanisms have serious limitation. Poor people don't have to stay poor they need to change themselves and their families.

As a means of financial service" Ekube" is one of the informal way of saving money in group and rotate limited amounts of money.

The poor rarely access service through the formal financial sector. Below are some reasons why the poor cannot get financial services from conventional banks.

- a)Don't have any money to open a saving account
- b)Don't have any collateral to show
- c)Don't have financial assets already
- d)Might even be unable to complete the necessary paperwork.

Because of those reasons most developing countries majority of people still remain excluded from financial services, this lead them to live in a very low incomes.

To improve the life of the people in easy way micro financial institutions play a major role in poverty reduction by loan and saving. (Adera, 1995).

According to mix market data report microfinance has become more and higher in demand. Since conventional banks fail to serve the poor due to incapable collateral to the bank, perceived high risks, high cost involved in small transaction, microfinance institution taking place to help with the total number of 22 in 2009 the gross loan portfolio reaches USD 432.3 million having 2.4 million active borrowers. (Gobezie, 2004).

The role of microfinance in the economy

Microfinance is the way of fighting poverty and helps the poor who earn less than \$2.50 per day. According to Global Microfinance Investment Congress suggested that to increase economic, develop the country and alleviate the poverty through microfinance program. Microfinance gives loans to help the low income earners to be self-employed, which is benefited the country. Even though microfinance fights poverty, it does combat world crisis like the recent world economic meltdown.

A glaring example of microfinance where people witnessed a change in their life from acute poverty to better living condition is in Bangladesh. There was a poor mat weaver caller Joygon Begum in Bangladesh. Joygon took a loan of \$65 from Gremeen Bank and used her 65\$ loan to buy a used sewing machine. She decided to set up a small business where she was making clothes. Her husband became a seller of these dresses in the village markets. Prior to this loan, she and her family had little to eat and not to talk of medical care; there was little or no money. There was no money to even pay the little tuition at school for their kid. The family was really suffering from financial crisis. With her loan, she rejuvenated the financial situation of the whole family and from then, they were able to feed three times a day with almost a balance diet. Their kids went to school and they had saved some money for unforeseen contingencies. (Rubinstein, 1993).

According to Wolday (2000), Microfinance lending saving and other financial services to poor people is an effective way to help poor people

help themselves build income and assets, manage risk, and work their way out of poverty.

Interest Rate for Microfinance in Ethiopia

Interest rate collected by the institutions may vary from different institutions. The nature of microfinance is small loans in such that interest rate needs to be high to return the cost of the loan.

According to Directive No.MFI/12/98 Microfinance institutions has the right to fix their lending interest rates. They pay little taxes as compared to conventional banks (Gobezie, 2005).

According to Economic Research paper by Sunita (2003), in Ethiopia interest rate can be said to be suitable and this is mainly because of the highly controlled nature of the Ethiopian economy and the inflation rate. Interest rate varies among MFIs ranging from 12.5% to 15%.

Even if the intuitions in Ethiopia set their own interest rate still difficult to cover operation cost because of low interest rate however microfinance in Ethiopia believe that increasing interest rate could hurt the poor and would not be able to profitable to cover higher interest rate. (Wolday, 2005).

2.3 The Impact of Microfinance

The growth of microfinance industry might be evidence in effective tool for alleviation poverty and women's empowerment. Microfinance has created huge hope and expectations in changing economy and social impacts.

Positive impact

1. Alleviation of poverty

Micro financing has a positive impact on improving the living standard of the borrowers through poverty alleviation. It makes financial services accessible

to the very poor households while protect them against risk. However, Institutions expanding their services in the rural areas face lots of challenges which need to be removed (IFAD, 2006).

Since the creation of the microfinance institution, studies have shown that the poor who have access to the services of the programs are able to improve their lives and family conditions (Morduch, 2002).

2. Women's empowerment

Microfinance empowers the poor, the program aims to make more women participate to become employers and change the household as a whole. NGO's goal is to eliminate gender inequality and empowering women. The Microfinance program play a vital role in women's empowerment, mostly females have more ability in controlling assets and knowledge of social issues in nature (Zaman, 1999).

A study conducted by Rose (2004), notifies how access to financial services has improved the status of women within the family and the community. Women have become more assertive and confident, in some regions where women's mobility is strictly regulated; women have become more visible and better able to negotiate in the public sphere. Women own assets, including land and housing, and play a major role in decision making.

Negative impact of microfinance

No doubt the poor are benefitting from micro financing services in many ways such as better income, education, meal, health care. Nevertheless, there are also negative impacts on microfinance. Because of the size and scope of the microfinance institutions, the number of the users is increasing which is good in that the income of the household in question gets higher. However, the lack of supervision by the government, low technology usage, and lack of market places are some negative impacts.

1. Risks in Micro finance

Ownership and Governance risk

Mostly Institutions capitalized with Non Governmental Organization fund (NGO) they don't have owner in capital and they are intend to succeed in social goals. One of the most problem the government failed to establish that the lack of access to land ownership still cause many people to remain in poverty.

Policy makers, experts in the government sector, NGOs, donors, researchers and the public have limited knowledge of the regulation of microfinance (Wolday, 2010).

Interest rate risk

Ethiopia has low interest rate compared to other countries that is affecting financial health and sustainability of MFIs to cover operating costs. However Ethiopian microfinance institutions give with a fixed interest rate for short term loan which protect funds from inflation and allow adequate margins including the provision for bad debts and other institution building costs (Wolday, 2008).

Credit risk

Credit risk leads the institution in danger not to earn capital it is associated with possible default by borrowers of MFIs when they fail to pay back there debit or being late. Thus MFIs in Ethiopia gives loan to group of people much is more comfortable to repay their loan on time (Wolday, 2009).

TABLE 1. Microfinance Risks

Internal Risks			External Risks
Institutional and Strategic Risk	Operational Risks	Financial Management Risks	
<p>(a) <i>Social Mission Risk</i> (lack of a defined target market and monitoring mechanisms to ensure provision of adequate financial services to the intended clients)</p> <p>(b) <i>Commercial Mission</i> (inability to set adequate interest rates and insufficient commercial orientation)</p> <p>(c) <i>Dependency</i> (similar to (b), but more specific to microfinance activities started and supported by international organizations)</p>	<p>(a) <i>Credit Risk</i> (related to general risk to earnings or capital due to late and nonpayment of loans; and to risk within individual loans (transaction risk) and to risk intrinsic to the composition of the overall loan portfolio (portfolio risk))</p> <p>(b) <i>Security Risk</i>, including fraud and theft (related to money flows in weak information management Systems, unclear policies and procedures and high staff turnover. This risk is exacerbated in poor economic environment and crisis situations such as disasters and war)</p>	<p>(a) <i>Asset and Liability</i> (related to incapacity to meet current cash obligations in a timely and cost-efficient way)</p> <p>(b) <i>Inefficiency</i> (affected by cost control and level of outreach, and related to lack of capacity in managing costs per unit of output)</p> <p>(c) <i>System Integrity</i> (related to quality of and processing of information entering the accounting and Portfolio management systems)</p>	<p>(a) <i>Regulatory</i> (related to regulations that can affect operations and service delivery)</p> <p>(b) <i>Competition</i> (related to lack of information on the services of others)</p> <p>(c) <i>Demographic (Client Profile)</i> (related to characteristics and vulnerabilities of target population)</p> <p>(d) <i>Macroeconomic</i> (related to changes in the macroeconomic Environment. It also has two facets)</p>

Source: Adapted from Churchill and Coster (2001) and MFN (2000)

Level of Regulation

The regulatory framework of Ethiopia provide for the licensing and supervision of the business of MFIs No. 40/1996 licensed by National Bank of Ethiopia (NBE). The banks protect microfinance's stability and efficiency performance in giving financial services to the poor.

At policy and regulation brought many benefits in crating environment for establishments of formal financial institutions for those poor peoples. However the regulation is not flexible for most intuitions the level of loan size has been limited to a maximum of \$575(Br. 5,000) with one year loan which supposed to fit with what the clients operate. This has been one of the main restrictive the efficiency of the microfinance service on the poor who are largely engaged in agriculture and live stock sector which need more time than one year to produce any result (Gobezie, 2005).

The Directives and regulations issued by the National Bank of Ethiopia are specifically stated the conditions to be engage in micro financing business (Wolday, 2000).

Below are the necessary conditions to be registered as microfinance institutions.

- a)obtain a license from the National Bank of Ethiopia
- b)be formed as a company (capital is owned fully by Ethiopian nationals) and registered under the laws of and having its head office in Ethiopia)
- c)minimum initial capital required by the National Bank of Ethiopia should be 11,738.81\$ (Birr 200,000) and
- d)The directors and other officers of the micro-financing institution should meet the requirements set by the National Bank of Ethiopia. (National Bank of Ethiopia Directives Number MFI/01/96 to MFI/19/2007).

The regulation should have also benefited both parts the institutions and the client however it has some problem beside the success such as loan amount and repayment period, loan given only for group and ask group guarantee as collateral, and eliminate participation of NGO as shareholders in MFIs.

Gender Issues

According to Women's Affairs Ministers Meeting 2007, MFIs targeting women and benefit from the program because women's repayment rates is higher. Even though MFIs in Ethiopia aim to participate women's in 50 % of the credit service, still they face problems by being women in a society. Women in Ethiopia face a lot of problems especially in rural areas; often face the dual burden of productive and reproductive roles; they need to travel on average half a day to fetch water for household consumption, bearing children and looking after their households. The program encourages women to participate and become self employed in the industry, but still they took smaller loan of 22% on average lower than those taken by men and the profit margins is much lower (Gobezie,2004).

2.4 Achievements and Challenges faced by Microfinance

Achievement of microfinance

According to the American Heritage dictionary (2000), achievement means something accomplished successfully through exertion, skill, practice and perseverance (Mifflin, 2000). In my research, achievement is used to see what microfinance have achieved in the course of providing loans to low income earners and how that has been very successful. In this sense, their achievement could be seen from how many people successfully got the loan and how they were removed from the poverty line.

According to United Nations Millennium Development Goal (MDGs) microfinance is a strategy to change the life of the poor people in terms of generating revenue to cover the necessary cost and institutions meet the demand (United Nation, 2011).

According to a review of documents, microfinance in Ethiopia has achieved a lot. Below are some of the achievements.

- the poor have emerged as credit worthy clients
- MFIs enable service with low transaction costs and without relying on collateral
- Delivery of Microfinance service to urban and rural poor
- Good outreach in terms of number of clients reached
- MFIs demonstrated good repayment rates. (Workshop, Meklit Microfinance Institution, Prognyst and Alisei NGO, 2004)

Challenges Faced by Micro financing

The Microfinance Institution in Ethiopia is growing with an incredible speed changing the lives of the poor. Besides the good things, below are some challenges faced by MFIs (Wolday, 2000).

- limited outreach particularly for women (Befekadu, 2007)
- lack of adequate whole sale funding possibilities (guarantee facility)
- operating and financing expenses are high
- Illegal government and NGO operations which spoiled the market. (Woldemicheal, 2010)
- high turnover of MFI staff consequently deteriorating the skills based in the industry
- lack of knowledge about microfinance services
- weak governance and management capacities for further developments
- limited financial products unable to address the various needs of clients
- lack of standardized reporting and performance monitoring system
- less attention and emphasis on the financial sustainability of MFIs

- inadequate donor funding
- drought and local market failures
- Poor infrastructure affects the outreach and sustainability of MFIs. This increases the transaction cost and affects the profitability of the institution.
- low interest rates in the microfinance industry affecting the financial health and viability of MFIs

2.5 How we measure the performance of MFIs

The tools to measure the social performance of microfinance institutions such as outreach in breadth (number of clients served) and depths (clients' poverty level), financial structure, financial performance, efficiency and productivity, and portfolio quality (loan repayment) are found to be effective measurements in order to investigate the structure of institutions and their use for the community(Lafourcade 2005).

Social Performance of Microfinance Institutions

Outreach

According to Anne-Lucie (2005), Microfinance developed to serve the poor people who are excluded from the financial institutions. The performance of the institutions can be measured in terms of breadth (number of clients served).

The performance of microfinance institutions in breadth has its own sub measurements in terms of types of the financial service offered, number of branches established, percentage of loans to clients, percentage of female clients and targeted population served, range of financial and non financial services, and level of transaction costs and extent of client satisfaction.

According to Welday (2000), the number of active borrowers in Ethiopia increase from time to time. On the other hand, number of MFIs does not meet the demand of those who seriously need the service.

The Financial performances of MFIs in nature need to be economically viable and sustainable so that they can continue reaching their objectives. Mostly the Microfinance institution earns its income from loans and funds from other non government organizations, penalties, and commissions.

In Ethiopia, the financial performance shows that it needs a long term prospect in order to develop. The creation of the microfinance program is not for profit organizations. However, to deliver the service the institution's should or depend on financial viability otherwise it is impossible (Welday, 2000).

Efficiency and Productivity

Normally the effectiveness and productivity of microfinance institutions is measured by financial ratios. Institutions earning performance depend on the degree to which an organization's income covers its expenses. Efficiency can also measured by cost per borrower and a cost per meanwhile productivity is often measured in terms of a borrower per staff members (Lafourcade, 2005).

Portfolio Quality

The portfolio quality or loan repayment of microfinance is the most revealing financial performance. Loan collection is needed for the success of microfinance. The method of collecting loans is not always reliable. There will be the risks of loan delinquency and default (Consultative Group to Assist the Poor CGAP, 2003).

Therefore, it is important the assessment of portfolio quality or loan repayment and its challenges to know the effectiveness and its viability in Addis Ababa MFIs (Yigrem, 2010).

The Subsidy Dependence Index (SDI)

This measurement method helps to measure how much the institutions depend on subsidies funds. It's the ratio of subsidy received to revenue from loans. The institutions mostly financed by subsidies loan for sustainable purposes.

The measurement index tells how much the lending interest rate should increase to remove subsidy and increase profitability for institutions. However, rising costs will lead to lower profitability (Yaron, 1994).

Sustainability of the Microfinance Program

The benefit of sustainability of microfinance is for the people who need the financial support. The Microfinance program is a significant and growing industry, the institutions gives benefits to the society, many can survive and manage their home well, send their children to school; eat three times a day and can even save some amount of money for emergency cases. Many MFIs in Ethiopia can deliver financial services in a sustainable way. Many can survive and benefit from the program and be self employed.

The number of borrowers and size of institution are used to measure sustainability of the institution (Littlefiel, Murduch and Hashemi, 2003).

According to Wolday (2005, Review of MFI in Ethiopia), the success of microfinance activities in Ethiopia depends on good governance in improving the social performance. Most clients' income depends on agricultural products that affect the performance of the microfinance institution because of the fluctuations of product prices that are difficult to predict. The governance should ensure consistency between various aspects of its social activities by analyzing the strength and weaknesses of institutions.

3 ANNUAL REPORTS OF SELECTED INSTITUTIONS

Apart from online questionnaire, the performance of microfinance institutions measured using the performance measurement methods we mentioned earlier. The findings are extracted and analyzed from the annual report and financial statements of each microfinance institutions under considerations.

3.1 Social Performance of MFI's

Breadth Depth of Outreach

Number of clients served in each institution measured. Outreach by each institutions observed from figure 1 below. Number of active clients in the institutions shows raise by 69% over the period 2002-2007.

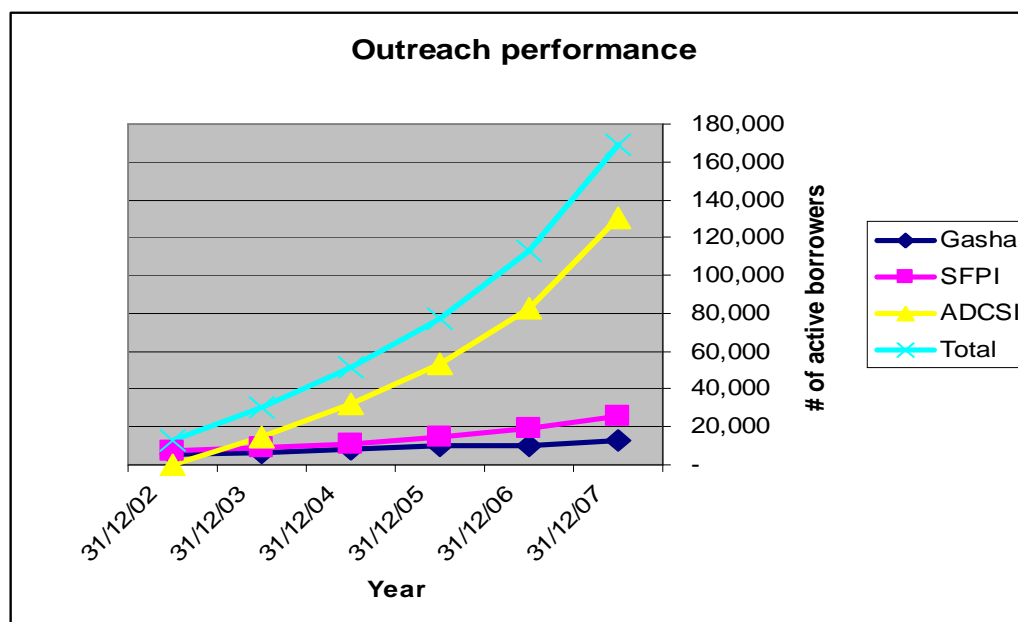


FIGURE 1. Outreach Performance

Source: National Bank of Ethiopia Annual Report 2002-2007

Above all the graph clearly indicated ADCSI played the major role in the total performance of the outreach by 814% over the period of 2003-2007.

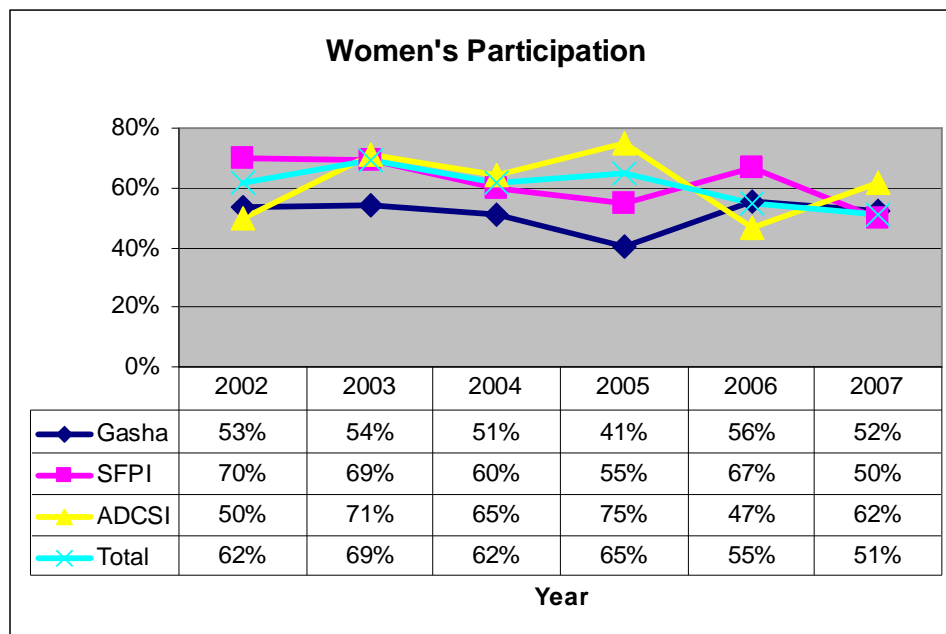


FIGURE 2. Participation of women on MFI Service

Source: Annual Report 2002-2007

The above table and graph illustrates the participation of women still limited by 50%. SFPI performance in participation women is much better than Gasha and ADCSI.

3.2 Financial Performance of MFIs

The financial health of the institutions depends on cost of funds and revenue (other financial assets like investment income). Microfinance institutions need to be sustainable to give ongoing service for the poor's, rising interest rates or fees could be other financial sustainability.

Profitability and Self- Sustainability

Microfinance industry sustainability measured by return on asset and return on equity (Consultative Group to Assist the Poor CGAP, 2003).

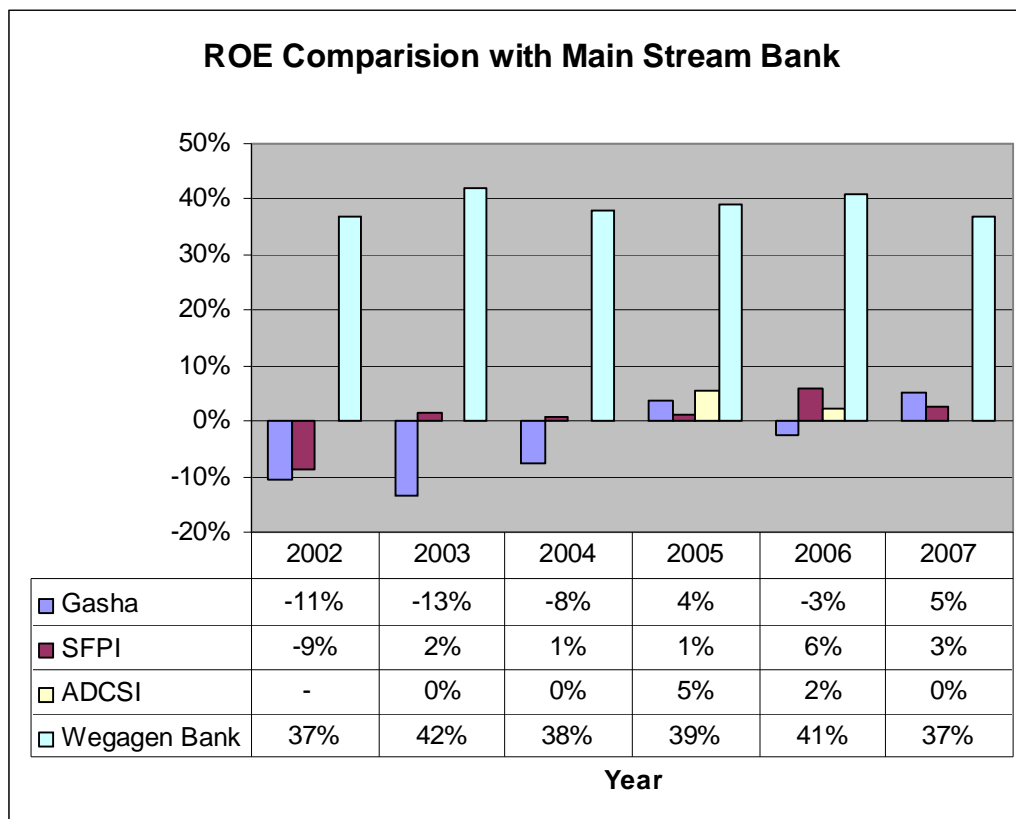


FIGURE 3. ROE Comparison with main Bank

Source: Audited financial statement 2002-2007

The data presented above is ROE performance of the three MFIs for the period of 2002-2007. The result was belows the minimum threshold of 9%. Having these ratio microfinance institutions could not be self-sustainable, profitable, and can't meet their social missions.

The figure shows comparison the institutions performance with mainstream bank Wogagen help to identify opportunity.

Portfolio Quality

Loan portfolio is for MFIs represent micro lending activity and microfinance delivery against potential losses and determines future revenue and outreach. According to National Bank of Ethiopia (NBE) directive MFI/18/06 non-performing loans more than 30 days should be monitored and categorized in to different categories.

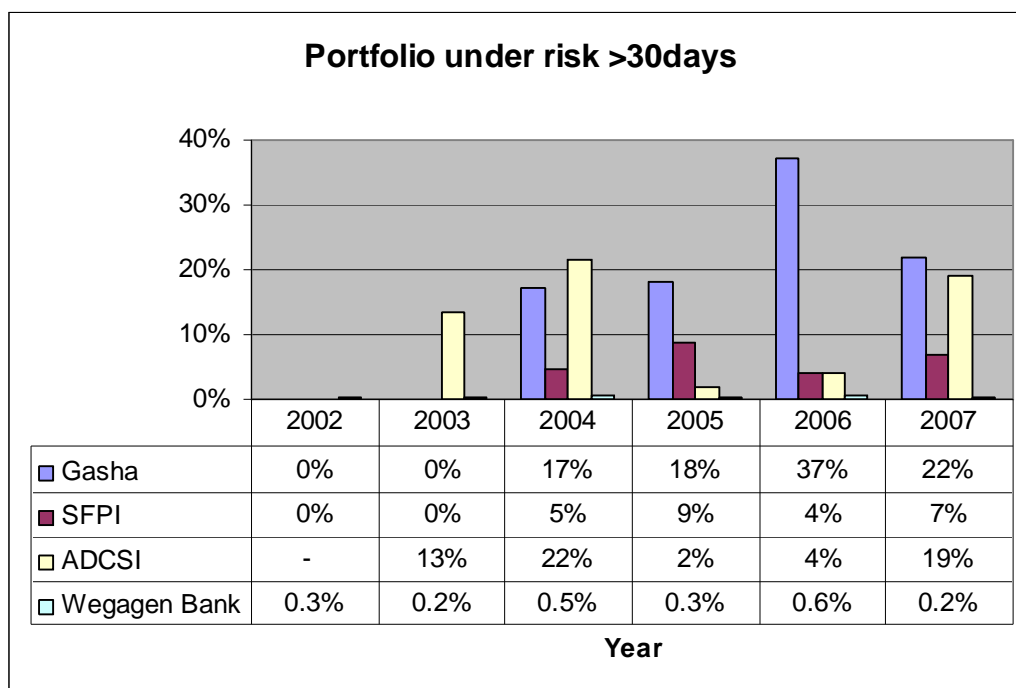


FIGURE 4. Portfolio under risk >30days

Source: Annual report 2002-2007

Non-performing loan can be for measuring profit quality. From the above graph the portfolio quality of MFIs is extremely low and it can affect financial sustainability of microfinance. Gasha had 37% non-performing loan in 2006 and ADCSI had also 22% had loan in 2004 and SFPI had 10% from 2003-2007.

Efficiency and Productivity

Efficient institutions minimize costs and serving clients. The productivity of Gasha, SFPI and ADCSI calculated and presented in the following chart.

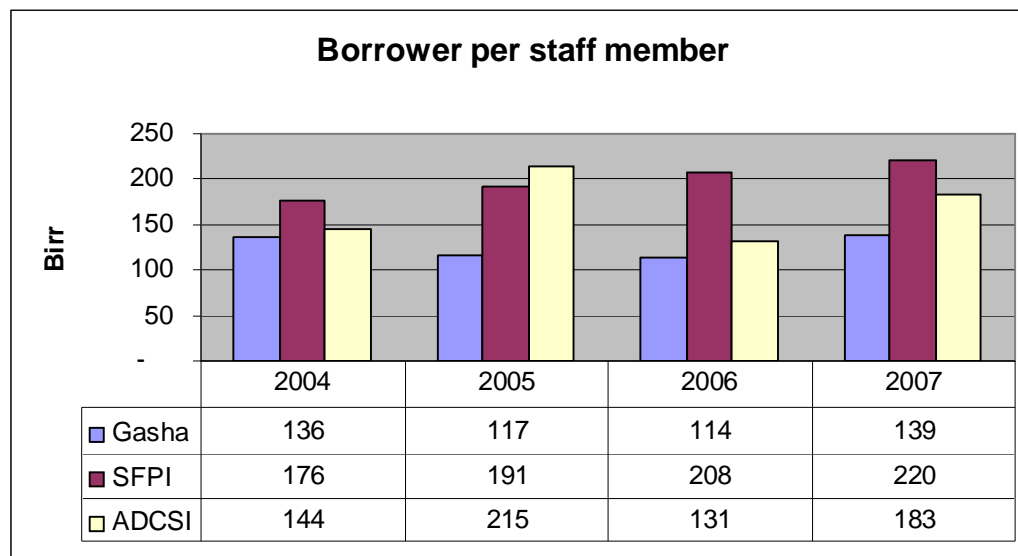


FIGURE 5. Productivity

Source: Annual Report 2002-2007

As the report explains ADCSI and SFPI have productivity more than the industrial standard of 150 borrowers per staff member but Gasha performance was unsatisfactory.

In this study efficiency test of the institution was omitted, this is mainly due to the fact that the financial statements of the institutions do not reflect the exact reality since most of the MFI get subsidies in kind and free service. In the case of ADCSI, the expense reported does not include building rent fee, transportation fee etc. as it is hosted by the city administration, sub city and kebeles.

Results of the research

Based on the result of this survey the movements of Microfinance in Ethiopia are encouraging. The program brings many benefits for the poor, enable the poor being empower, secure, and can get a service like health and education.

However microfinance has constraints and challenges as well. Based on the result of this survey ownership and governance risks, lack of adequate supervisor, regulatory, interest rate risk and credit risk are among them.

Microfinance sector has to be sustainable for giving financial service for the poor, for successful delivery the program has to be regulated. Regulation helps both parties it protect depositors from fraud, ensuring stability of the sectors and encourage financial sector. The regulation has improved from time to time in increasing the term and loan size and allows the institutions to set interest rate themselves.

Responses to the Research questions

1. What are the achievements acquired from the application of microcredit in Addis Ababa, Ethiopia?

This study has found the achievement acquired from the institution is making financial service accessible to the poor, especially those living in rural areas. Microfinance aimed at eradicating poverty and empowers the young people in different sectors. The programs also encourage savings; start up business, income earning opportunities. In case of helping rural households for food security microfinances in Ethiopia achieving a lot. Given that many poor potential clients are still not reached by modern financial service, the institutions needs to expand their reach. To reach the poor in desired growth public investments in rural infrastructure and business development service are vital.

2. What are the challenges of microfinance in providing sustainable loan service for the people?

Sustainable program is the one that can offer ongoing service. MFI regulated to provide services on a suitable basis under uniform standards, the ability to give loan for new and existing clients depend on donors funding because most MIFs couldn't cover even there costs, NGO funds could be sometimes less and clients demand will be high, it's important that MIFs seek for long term plan in order to give sustainable loan for the clients. I believe giving long term loan to the client will help the institutions sustainability; the clients will repay their loan in long run and keep coming.

The challenges not to serve in a better way for the poor is mentioned in previous section, Microfinance Institutions main challenges is giving services for the people living in rural areas, where access is granted, clients low skill, very poor infrastructure, making development of internal markets very difficult. The other way for giving loan in sustainable way can be only if the borrowers can be charged high interest rate, for most MFIs impossible to reduce their administrative cost depending on methodology, loan size and location.

3. What are the major constraints imposed by legal and regulatory framework on microfinance?

The major constraints from legal point of view affecting the industry, the policy empowered National Bank of Ethiopia(NBE) to license, supervise and regulate financial institution considering their special nature and funding sources, including favorable options for transformation and up-scaling into deposit mobilizing institution without having to go through the expensive processes of registering as bank. There were devoted to improve the policy, legal and regulatory framework for microfinance.

MFIs have difficulty in accessing commercial loans without guarantees, thus their future to operate independently of donor support is questionable.

The existing legal framework does not allow for non-bank financial institutions to engage in financial services.

Microfinance regulation is driven by policy makers desires to control NGOs and other semiformal microfinance providers, the National Bank of Ethiopia mandated to license all MFIs that extend small credit to rural farmers and urban entrepreneurs; however the capacity to follow up all microfinance found in Ethiopia will be difficult for one Bank.

4. What should be done to improve governance and transparency of microfinance?

It is obvious to develop a regulatory and supervisory frame work for MFIs from the government, encouraging to create a self regulatory mechanism, improve infrastructural facilities like electricity, road, water to serve rural areas and to save costs, giving training MFI employees to enable them to develop an efficient information system for identifying and managing, satisfying relevant data and information requirements of regulatory and stakeholders.

In general achieving a policy and legal framework is believed to be a better way to improve MFI and increase the depth and breadth of access to financial service, the regulatory framework should be flexible enough t permit unregulated MFIs to evolve.

4 CONCLUSION AND RECOMMENDATION

4.1 Conclusion

This research focused on achievements and challenges of the Microfinance Institutions in Addis Ababa. Using different insights from the literature, banks, MFIs site, and distributing the questionnaires to MFIs, the paper examined what MFIs had achieved since the creation of the system and what challenges it was facing, including the impact of regulation, management institutions, sustainability and outreach.

This study contains four main research questions and tried to find answers to them.

The author observed the achievements acquired from the application of Microcredit, helping the low income people to smooth their income and become self-employee.

The data was obtained from the respondents through questionnaires as well as an analysis of the operational and financial reports of the Addis Credit and Saving Institution (ADCSI), Specialized Financial and Promotional Institution (SFPI) and Gasha Institution. The literature on Achievements and Challenges of Microfinance was also reviewed.

In this paper the author only dealing with the question for Micro financial institutions, the researcher suggest further studies on the perspectives of the clients to identify what kind of service they need to develop their productivity.

The Microfinance industry is still at an early stage of development in Ethiopia and it has a long way to go to fully meet the demand for financial services among the poor and low income households and their micro enterprises. The Achievement of the sample institutions was presented using annual reports. The indicators of sustainability of the institutions are:-

Outreach: - the outreach performance of the institutions showed a remarkable achievement and can give services for rural and urban areas.

Accessibility: - having their contact office in Addis Ababa and providing their clients to have easy success and a possibility to choose between the Microfinances institutions, MFIs branches are available in almost all sub regions.

Female participation: - women participation in the institutions performance is 50% for the period of 2002-2007 data analysis. Looking at the details of the Gasha's figure 2, women performed the least among other and SFPI performed the best of all the three MFIs sampled for this study.

Efficiency and Productivity: - An attempt was also made to evaluate the operating cost ratios of the selected MFIs by comparing their respective operating costs with the average values of loans outstanding. Hence, the results revealed that the institutions are efficient in this regard since the declining ration is positive.

From the sustainable point of view, all Microfinance institutions were doing well in terms of operational self-sufficiency and financial self-sufficiency. The author believes that client sustainability is important to the sustainability of Microfinance institutions.

Challenges of the sample institutions presented below

Sustainability challenges

Microfinance institutions ability to continue operating and grow in the future is dependent on profitability of the institution. Profitability of microfinance institutions were measured and analyzed using operational and financial self sufficiency, return on assets and return on equity ratios.

ROE:-For this purpose, the institutions return on equity (ROE) ratios has also been tested. Accordingly, Gasha MFI the results obtained shows unfavorable (negative) results with the ROE ratios of -4%, 2003 and 2007 fiscal periods.

The unfavorable ratios are the results of the huge net loss reported by the firm during the year. SFPI's and ADCSI's ROE average ratio for 2003 and 2007 fiscal periods are 1% and 5% respectively which is unfavorable because it could not even meet the minimum requirement of 9% and compared to the main stream banks the result is too low to attract any capital to the institution. Portfolio Quality Ratios: - The study also examines the portfolio at risk of the firms by comparing the outstanding balance of all loans with 30 days (PAR>30) past due payments with the value of current portfolio outstanding. Hence, for all three MFI's Gasha, SFPI and ADCSI the result revealed shows due passed loan stood as high as 37% in 2006 for Gaha, 200% in 2004 for ADCSI and 9% in 2005 for SFPI. This high non performing loan ratio shows the firms ineffectiveness and those financial institutions could not be self-sustained. Taking into account the regulation of NBE for provisioning for non performing loan, all three institutions seriously suffer profitability and loss of fund.

The other challenges of today's MFI is their clients portfolio, most of the clients of those MFI's are under educated and do not have training in their sector of engagement. Improving their skill makes them competitive and these in turn make them profitable to repay their loan.

All MFI studied do not have automated MIS system, they depend on manual operation for their management information system. This manual operation worsens already difficult process of managing loan even more challenging. Experience from the main stream banks in Ethiopia and other countries experience in MFI shows that automated MIS system could play a constructive role in follow-up of non performing loan efficient service and better management and reporting.

On the basis of government regulation and supervision Microfinance Institution regulated in order to have sustainable delivery of financial service for the poor people. Based on the survey made and from literature in the previous sections of this paper the regulatory framework for Microfinance Institutions in Ethiopia brought many benefits and challenges for the institutions.

Moreover, microfinance in the rural areas lack a means of keeping information because of the ICT and electricity goes off and on. Black out is a serious

problem in the country which actually affects the handling and functioning of these small and large scale banking as a whole. Some who works in this sector are not trained thus lack adequate skills of organizational knowledge management. In collecting information on sustainability and up-to-date information, most of microfinance institutions are not keeping the data in the required format.

Microfinance risks may come from external or internal environment, however many MFIs in Ethiopia give small attention to identify and manage these risks. MFIs managers should consider risk management in providing guideline to strict licensing and minimum capital requirement, responsibility and standard regarding owners.

Most Microfinance institutions in Ethiopia follow Greeman loan method which is group lending, this method helps the poor not to show collateral, and rather each group member is collateral for each other. However when the size of the group member exceeds more than 5 there will be problem inside the group member, each person has different character, need and may not commit equally for the group.

The performance of Microfinance Institution is best evaluated in light of the institution's context and stage of development.

4.2 Recommendation

With all these important considerations in mind, the following recommendations for a successful microfinance program can be made. Since the objective of MFIs is to alleviate poverty instead of being profit generating institutions, they should lower there interest rate.

- . The loan ceiling or single borrower limit, which is 5000 Birr (Approximately USD 575), should be waived and the loan term which is one year, should be waived too
- . Improve the governance of MFIs
- . Make the ownership relations clear
- . Establish a technical advisory board for MFIs.

The Government should act to create a better policy, a legal and regulatory framework for the expansion of MFIs and to protect the consumers against predatory service providers.

Improvement in the infrastructure has a positive impact on the sustainability of the industry because it decreases the cost of MFIs and the clients.

To improve the service given by the MFIs in Ethiopia, the institutions should merge with other institutions to achieve the level of efficiency required of the service. The institutions might need to seek how to improve the lending strategy, use new technology, and better communication with other MFIs and clients.

The poor obviously need credit facilities for them to engage into business and technical training, establishing of market linkages for inputs and outputs and some infrastructure.

The results of the study showed that all the MFIs do not have any MIS, which in turn makes them incompetent and acquisition of such system could be expensive to acquire individually therefore this is to recommend that it will be better if MFIs try to acquire the software license through their association in group.

Since the poor are abandoned by the formal banking system, the prospect offered by the services provided by the MFIs allows the poor to access the credit at relatively low interest rates.

The author believes that Micro Financial Institutions will significantly increase their potential if the measures quoted above spread microfinance knowledge, transparency and social performance measurements, improving government rules and regulations.

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APPENDICES

Appendix 1 Questioner and Analysis

In this appendix, data analysis and interpretations are presented. Questionnaires were prepared to assess the response of MFIs. The data was collected through online questionnaire and regular mails for those who never managed to use the online service. My research administrator administered the questionnaires and posted them to me. The data for the research is presented mainly with help of tables and percentages.

According to micro and small enterprise office found in the area, the leading engagements sectors for micro and small scale enterprises are mainly industry, commerce, construction, urban service and urban agriculture.

The primary sources of the data were obtained from online questionnaire distributed to 20 officials from different micro financial institution working in Addis Ababa. Addis Credit and Saving Institution (ADCSI), Gasha Institution and Specialized Financial and Promotional Institution.

Gasha Institution, Specialized Financial and Promotional Institution (SFPI) and Addis Credit and Saving Institution (ADCSI) are analyzed and presented in two groups.

This analysis is presented based on MFIs perspective, mainly focusing on social aspect of their operation and improvement opinion of who run the institution.

Questionnaire for Microfinance Institutions (MFIs)

Name of the Organization	
Acronym	
Address	
City	
Telephone	
E-mail address	

1. Name and
Position: _____

2. Type of
organization _____

- NGO
 Rural Bank
 Cooperative
 Other, please

specify _____

3. What service do you offer?

4. Number of branches at present

5. Total number of
clients _____

6. Areas of
operation _____

7. Number of new branches planned for
future _____

8. How many applicants did you receive annually for the last three years?

9. How many of these applications succeeded in acquiring the loan?

10. What are the reasons not giving the loan?

11. What lending methodologies are you following?

Grameen Bank (Group lending)

Village banking

Individual lending

Other, please

specify _____

12. How many of the borrowers become successful in paying back their debit? (%) _____

13. Please list problems of which cause for lack of success of borrowers?

14. What are the major constraints imposed by legal framework or government regulations?

15. What should be done to improve Governance and transparency of MFI?

16. What are the procedures taken during selection of the borrowers?

17. Is their external body inspection on the selection process?

Yes

No

If yes how?

18. Is there any representation of beneficiary group involvement in selection process?

Yes

No

If "Yes" What is the involvement of social group in selection?

19. How does the MFI's get their background check for their borrowers?

20. What are the factors which hinder the poor from getting benefit of micro credit?

21. Where do you get the fund for micro enterprise lending?

22. Do you think really poor are getting benefit of your funding?

Yes

No

If "no" why

23. Do you have links to formal sector?

Yes

No

If "yes" please explain

24. Comparing to other countries Ethiopian's MFIs charges low interest rate; does it affect your organization? How?

25. What would be the benefits if MFIs given freedom of setting interest rates?

26. What kind of MIS system do you use currently for microfinance operations?

- Paper-based, manual MIS
- Excel spreadsheet-based MIS
- Software system developed in-house
- Third-Party Software: Name of Software _____,

27. How are data transferred from branch to branch/ branch to head office?

- Real time (through internet/leased lines)
- Periodic transfer through electronic files (as email attachment, USB drive, diskette)
- Print out or fax
- Other (Please Specify):

28. Are you satisfied with your current MIS software system?

- Yes
- No
- We don't have an MIS software system

29. If not satisfied, what aspect of the current system causes maximum dissatisfaction?

- The system does not have adequate features or reports to cover our operations
- The system is not flexible enough to accommodate changes in our operations
- The system is technically not adequate (i.e. database not capable of handling volume of data, system runs very slowly, inadequate security, frequent bugs/errors, etc.)

- Support/maintenance services of the vendor is not responsive
- We are satisfied with our current system
- Other (please explain in brief):
-
-

30. In case you are planning to go in for a new software system, what are the reasons?

- To automate transactions and get system-generated reports
- To ensure effective supervision and control over operations
- Difficult to achieve growth objectives without automated MIS system
- External agencies like Funders, Partners and Regulators etc. want you to have an automated MIS system in place
- Other (Please specify):
-

31. How much are you willing to spend on a new MIS system (including associated costs of hardware, if any, database/OS licenses, networking/connectivity etc.)?

- Less than birr100,000 per branch
- Birr 100,000 to 200,000 per branch
- Birr200, 000 to birr 400,000 per branch
- Birr 400,000 per branch

32. Are you satisfied with current policy, rule and regulation of Government regarding MF (Micro financing)

Yes No

If "No" why

33. Does Microcredit Enterprises target a certain level of poverty?

Yes No

34. Is the microfinance institution loan application process transparent, open, efficient and fair?

Yes

No

35. Do you think interest rate charged by microfinance institutions is appropriate?

Yes

No

36. Do you think MIFs has helped in rural area?

Yes

No

37. Do you think MIFs can help unemployed urban youth?

Yes

No

38. Do you think MIFs is a tool to eradicate poverty?

Yes

No

39. How do you anticipate the future of MIFs? Rate on the scale of 1 to 5?

1

2

3

4

5

40. According to you which factors are more crucial for rapid growth of MFIs?

Low interest rate

Availability

Processing and authorize of loan

Payment factor

41. Have you ever received financial capital or subsidy for your organization?

Yes

No

If yes from were: _____

42. Do you receive any assistance or training to serve the client in better way? If not do you need business development support services to serve in effective and efficient? _____

MFI Perspective

20 staffs participated in the online and mail survey from Gasha, SFPI (Specialized Financial and Promotional Institution) and ADCSI (Addis Credit and Savings Institutions) were randomly selected.

TABLE 2. Organization Profile

S.N	Item	Respondents		
		Gasha	SFPI	ADCSI
1	Type of Organization	Non-Bank financial institution	Non-Bank financial institution	Non-Bank financial institution
2	No. of members	25,300	13,100	83,000
3	No Branches	55	15	180
4	No of active borrowers	25,000	34,350	150,100

Source: Questionnaire field survey 2011

The organizational profile for the three MFI's is presented on table above. All MFI's are registered as non-banking financial institution as it is required by NBE directives.

TABLE 3. Loan Administrations

S.N	Item	Respondents		
		Gasha	SFPI	ADCSI
1	No. of loan applications received per yr.	2,952	8,641	32,452
2	No. of applicant succeeded in loan getting per year	2,680	6,400	30,180
3	No. applicants succeeded in paying back loan (%)	See portfolio quality indicator	See portfolio quality indicator	See portfolio quality indicator

Source: Questionnaire field survey 2011

Detailed trend analysis supported with chart and successive year of data collection is presented on next section of financial analysis.

TABLE 4. Source of Capital

S.N	Item	Respondents		
		Gasha	SFPI	ADCSI
1	Source of fund	.Grant .Loan .Saving .Shareholder capital	.Grant .Loan .Saving .Shareholder capital	.Grant .Loan .Saving .Shareholder capital
2	Major source of fund	.Loans .Shareholder capital	Shareholders Capital	Shareholders Capital
3	Do you have links to formal sector	Yes	No	Very Little(Development Bank)

Source: Questionnaire field survey 2011

All three MFI's do rely on shareholder's capital, but Gasha has also raised substantial amount of fund from loan. Although ADCSI has acquired small amount of loan from development bank of Ethiopia, the main source of capital comes from the Addis Ababa City Administration. The other point worth mentioning is, even though all the three MFI's do have forced and voluntary savings, they could not mobilize substantial amount of saving so as to help them get cheaper source of fund.

TABLE 5. Borrower's selection Transparency

S.N	Item	Respondents		
		Gasha	SFPI	ADCSI
1	Existence of external body inspection on the selection process	No	No	No
2	Is there any representation of beneficiary group involvement in selection process	No	No	No

Source: Questionnaire field survey 2011

The table above shows all three MFI's do not have external body inspection and beneficiary representation for their selection of their borrowers.

TABLE 6. Automation of Operation

S.N	Item	Respondents		
		Gasha	SFPI	ADCSI
1	What kind of system do you currently use for microfinance operations	Manual	Manual	Manual
2	Do you have MIS system in your organization	No	No	No
3	Are you satisfied with your current MIS software system	No	No	No

Source: Questionnaire field survey 2011

Experience from the main stream banks in Ethiopia and other countries experience in MFI shows that automated MIS system could play a constructive role in follow-up of none performing loan efficient service and better management and reporting.

Unfortunately all of the MFI do not have any form of MIS system to improve their profitability and efficiency.

TABLE 7. Legal Framework, Policy and Regulations

S.N	Item	Respondents		
		Gasha	SFPI	ADCSI
1	Interest rate setting	Variable	Variable	Fixed
2	Maximum capital limit on the borrowers	Yes	Yes	Yes
3	Major constraints imposed by legal framework or government regulations	. No links to the main stream banks .Loan size cap .Repayment period .None performing loan provision	. No links to the main stream banks .Loan size cap .Repayment period .None performing loan provision	. No links to the main stream banks .Loan size cap .Repayment period .None performing loan provision

Source: Questionnaire field survey 2011

The main constraint imposed by the legal and regulation comes from the availability of loan amount cap. 75% of the total respondents believe that restriction on loan amount and short repayment period is the major obstacle

for the borrowers to repay their debt back. The respondents believe that bigger loan size and longer repayment period can improve the portfolio quality. In addition to this as per NBE directives, MFI/18/06 the MFI's are required to categorize outstanding loans which has more than 30 days past due and they are required to make a provision. This directive make MFI's to allocate their fund to provision rather than loan to the needy.

Appendix 2 Cover Letter

INFORMATION SHEET CONCERNING THE STUDY

Achievement of microfinance and challenges in Addis Ababa Ethiopia (What has been done and challenges are my main concern)

As a selected and outstanding small financial institution, It would be good to understand the following regarding the study:

The purpose of this study is to understand the achievement of microfinance in Ethiopia. This study is part of a thesis being done to partially fulfill requirements for the researcher investigator to receive a bachelor's degree. Participation in this study is completely voluntary. Participants also have the right to drop out of the study at any time once it has begun. As a participant in this study, you are one of the microfinance institutions in Addis helping to provide loans to low income earners and transform their lives. You were selected for possible participation by the researcher through a random selection. As a manager or teller and others, participation in this study is anonymous. The researcher's private records will be the only place where participant identifying information will be kept. These records will be destroyed when the study is completed. The only risks or potential discomforts associated with this study are in the area of time management. Participation will require some amount of time on your part. You will not be compensated for your participation in this study. The benefits of this study are improved opportunities for low income earners, poverty stricken, among others in Addis Ababa, Ethiopia. I hope that you will participate throughout the entire project, but you are free to withdraw at any time. This research study has been

reviewed by the University of Applied Sciences, Jyväskylä (JAMK) supervisors. For research-related problems or questions regarding subjects' rights, you can contact the researcher's supervisors.

Thank you for your consideration on this project

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