

**Market Structure and Performance of Microfinance  
Institutions in Ethiopia**

**Thesis Submitted to Indira Gandhi National Open  
University (IGNOU) in Partial Fulfillment for the Degree  
of Master of Arts in Rural Development**

**BY**

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## DECLARATION

### By Student

I hereby declare that the Dissertation entitled **'MARKET STRUCTURE AND PERFORMANCE OF MICROFINANCE INSTITUTIONS IN ETHIOPIA'**

submitted for the partial fulfillment of the M.A. in Rural Development to Indira Gandhi National Open University, (IGNOU) New Delhi is my own original work and has not been submitted earlier to IGNOU or to any other institution for the fulfillment of the requirement for any course of study. I also declare that no chapter of this manuscript in whole or in part is lifted and incorporated in this report from any earlier work done by me or others.

Place: Addis Ababa, Ethiopia

Date: May 18, 2012

Signature\_\_\_\_\_

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## CERTIFICATE

This is to certify that Mr. Anbessie Chaka Robele student of M.A. (RD) from Indira Gandhi National Open University, New Delhi was working under my supervision and guidance for his project work for the course MRDP-001. His project work entitled **'MARKET STRUCTURE AND PERFORMANCE OF MICROFINANCE INSTITUTIONS IN ETHIOPIA'** which he is submitting, is his genuine and original work.

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## DEDICATION

This research project is dedicated to my wife, Serkalem who supported me in one way or the other during my study. It is also dedicated to my beloved son, Duran.

I wish them all the best in life, and May the blessing of the Almighty God be upon them.

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## LIST OF ACRONYMS

AAU	Addis Ababa University
ACSI	Amhara Credit and Saving Institution
ADCSI	Addis Credit and Saving Institution
AEMFI	Association of Ethiopian Microfinance Institutions
AVFS	Africa Village Financial Service
CBE	Commercial Bank of Ethiopia
CGAP	Consultative Group to assist the poor
CEO	Chief Executive Officer
DECSI	Dedebit Credit and Saving Institution
EIU	Economist Intelligence Unit
GNI	Gross National Income
GTP	Growth and Transformation Plan
HHI	Herfindahl-Hirschman Index
IFAD	International Fund for Agricultural Development
MBB	Micro Banking bulletin

MDGs	Millennium Development Goals
MFIs	Microfinance institutions
MOE	Ministry of Education
MoFED	Ministry of Finance and Economic Development
NBE	National Bank of Ethiopia
NGOS	Non Government Organizations
OCSSCO	Oromia Credit and Saving Institution share company
OECD	Organization for Economic Cooperation and Development
PAR	Portfolio At Risk
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
ROA	Return on Asset
ROE	Return on Equity
RUFIP	Rural Financial Intermediation Program
SEEP	Small Enterprise Education Promotion Network
SFPI	Specialized Financial and Promotional

Institution

UN

United Nations

UNCDF

United Nations Capital Development Fund

UNDP

United Nations Development Program

WB

World Bank

## DEFINITIONS OF TERMS

**Concentration:** According to OECD (2007) glossary of statistical terms, concentration refers to the extent to which a small number of firms or enterprises account for a large proportion of economic activity such as total sales, assets or employment.

**Concentration ratio:** The concentration ratio indicates whether an industry is comprised of a few large firms or many small firms.

**Herfindall-Hirschman Index:** Index used to measure concentration.

**MFI Performance:** Refers to MFI's operation result over a period of one accounting/financial year. The results are measured based on predetermined criteria.

**Gender sensitive:** According to AEMFI (2011) Bulletin 7, MFIs are gender sensitive if managed to have more than 50% women borrowers.

## **ABSTRACT**

Microfinance business, developed over the last 30 years, came to picture to provide credit service to the poor and low-income clients. It also works towards inculcating the culture of saving whereby clients manage to accumulate asset in the form of cash and in kind for investment, among others.

The research employed secondary and some sort of primary data for the period 2005-2010 where the study focused mainly on market structure and performances of Ethiopian MFIs. Market concentration analysis has been made using concentration ratio (the four largest MFIs) and HHI on the basis of active borrowers and loan portfolio. The study also used the best and widely used performance indicators namely depth of outreach, breadth of outreach, deposit loan portfolio ratio, gender sensitivity, Return on Asset (ROA), Return on Equity (ROE), portfolio asset ratio, operating expense ratio, cost per borrower, active borrowers per loan officer, portfolio quality, and debt to equity ratio.

The findings of the study indicated that the Ethiopian microfinance industry is booming though the rate of growth of outreach started declining steadily during the last three years. The loan balance per borrower /GNI per capita of Ethiopian MFIs shows that the sector is poor performer in reaching the poorer as they extend larger loans than the MBB benchmark. The largest four MFIs enjoyed substantially higher growth as compared to Ethiopian MFIs as a whole and the market structure suffers from high market concentration during earlier years and has shown remarkable improvement and become moderate starting



from 2009. The average of six years under consideration (2005-2010) is also considered to be moderate.

*The Ethiopian MFIs in general and top four in particular are less gender sensitive as compared to African average. Despite this, the microfinance industry in Ethiopia recorded remarkable performances in terms of profitability, efficiency and productivity indicators when compared to African industry standard and MBB benchmark. However, the quality of portfolio is less and debt to equity ratio shows that Ethiopian MFIs have less access to commercial sources as compared to that of African MFIs. The Findings of the study are beneficial for regulatory authorities, policy makers and practitioners for necessary consideration so as to enhance the competitiveness*

## CHAPTER ONE

### INTRODUCTION

#### 1.1 BACKGROUND

Microfinance is the provision of financial services to the poor and low-income clients where service providers are commonly known as microfinance institutions. It has been developed over the last 30 years to deliver financial services using group lending methodology and liability on top of others. Microfinance also works towards inculcating the culture of saving whereby clients manage to accumulate asset in the form of cash and in kind for investment. In a broader sense, microfinance refers to sector where low-income households have permanent access to a range of high quality and affordable financial services to engage in income generating activities, build assets, stabilize consumption, and protect against risks. In this sense, the services of MFIs include but not limited to savings, credit, insurance, remittances, and payments (Visit [www.microfinancegateway.com/section/faq](http://www.microfinancegateway.com/section/faq))

The concept of specialized Microfinance Institutions (MFIs) developed over the last few decades. Historically, it is proved that Commencing 1950s through 1970s the provision of financial service was focused on providing subsidized agricultural credit to small and marginal farmers by governments and donors in order to raise productivity and incomes of the target groups. Developing over the years, in 1980s, the concept of micro-enterprise credit started targeting

poor women to involve in tiny business activities that would help them accumulate assets thereby raising household income and welfare. The achievements recorded over time caused the emergence of nongovernmental organizations (NGOs) that provided financial services for the poor following which many of these institutions transformed themselves into formal financial institutions in 1990s in order to enhance their outreach availing necessary financial services mainly credit and saving (Visit <http://cgap.org>)

Microfinance proved to be an effective and powerful tool for poverty reduction like many other development tools though a lot remains to be done in reaching the poorer strata of society who constitute the vast majority of those without access to primary health care and basic education (Jonathan 2001). It is strongly stressed that microfinance has a positive impact on the first Millennium Goal: that the number of people living in extreme poverty (defined as those living on less than \$1 per day) will be reduced by half between 1990 and 2015 (Ibid).

In the Ethiopian context, the history of formal Microfinance institution dates back to 1997 following the issuance of Proclamation No. 40/1996 issued for licensing and supervision of microfinance business. The objective of the MFIs is basically poverty alleviation through the provision of sustainable financial services to the poor who actually out of the orbit of financial services of formal financial institutions, as banks were reluctant to extend credit facilities to the

poor for fear of recovery on the one hand and the existing banking system was basically not pro-poor on the other.

Following Proclamation No. 40/1996, the Ethiopian microfinance sector started to grow aggressively in terms of number and outreach. By the year 2005, 26 MFIs were functional whereby 1,277,939 borrowers with an aggregated portfolio of birr 1,622 billion had been served. In terms of client outreach this figure represents nearly a 300% increase from the year ending 2001 (Abebe 2006). The number of microfinance Institutions continued to grow and reached 30 by 2009 and managed to serve over 2.3 million clients that is over 3000% increment when compared to year ending 1997 (Yigrem 2010). The second characteristic is that outreach is unevenly spread over the existing MFIs. The two largest service providers (DECSI and ACSI) took the lion share in terms of client outreach by late 2005 (Blue Rhino 2006)

Though the objective of almost all Ethiopian microfinance institutions is poverty alleviation, there has been surprisingly very little effort to evaluate their performance for necessary consideration. There is strong suggestion from stakeholders to support all microfinance institutions in order to let them stay in the market to serve the poor (Alemayehu 2008). All MFIs managed to serve less than 20% of the credit needs (AEMFI 2011). The largest market share is taken by the first three government backed regional based MFIs namely ACSI (41%), DECSI (37%) and OCSSCO (12%) (Abebe 2006). As per the report of MicroFinanza rating agency, the Ethiopian microfinance sector is dominated by

the 5 state-owned regional MFIs, (ACSI, DECSI, ADCSI, OMO and OCSSCO) where over 85% of the total loan receivables concentrated in the hands of these 5 MFIs by the year 2009 (MicroFinanza 2011). The sector receives significant support from the Rural Financial Intermediation Program (RUFIP) with funding support from IFAD, ADB and the Ethiopian government where the market bears an element of unfairness in accessing to finance i.e. regional government backed MFIs are favored in terms of access to finance over others (Ibid).

The number of microfinance institutions reached 30 as end of the years under review that is 2010. This is within 13 years of commencement of formal microfinance institutions in Ethiopia following proclamation 40/1996 issued for licensing and supervision of activities of the industry. The study therefore, tries to assess the market structure and performances of Ethiopian MFIs using the best and widely used performance indicators.

## **1.2. STATEMENT OF THE PROBLEM**

Following the success of the Grameen Bank in Bangladesh, the importance of microfinance to fight poverty has gained momentum and literatures confirmed that microfinance has played a lot in increasing the incomes and assets of the poor. It also helps them in increasing consumption expenditure on basic necessities and inculcate saving cultures (Bamlaku 2006)

Ethiopia is working towards creating national poverty reduction strategy based on local needs and priorities where UNDP advocates for the nationally owned solutions so as to ensure the effectiveness of scarce resources (UNDP, 2003). As described in the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) designed for the five-year period 2005/06-2009/10, the country's development policies and strategies are geared towards poverty eradication (MoFED 2006). Microfinance believed to be one of the appropriate tools to fight poverty. Compared to the experience of other developing countries, institutionalized microfinance development is a recent phenomenon in Ethiopia and it dates back to late 1990s. It was established following proclamation No. 40/1996 issued for licensing and supervision of microfinance activities. With the efforts made during the past one and half decades, all MFIs managed to achieve only less than 20% of the demand for credit which implies there is a huge-unmet demand. The achievement is also concentrated in the hands of very few government backed MFIs. The existing market share shows the dominance of some MFIs ranges up to 90% in terms of loan portfolio. The Ethiopian micro-finance industry continues to show exponential growth and largest MFIs already bigger than some of the smaller banks (Access capital 2010). Currently there are 30 active MFIs in Ethiopia where five microfinance institutions dominate the sector with more than 84% of clients and 90% of outstanding loans (RUFIP 2011). In 2009, the first five microfinance institutions constituted over 87% and 84% in terms of loan portfolio and active clients respectively (EIU 2009). This is basically the feature of regional

governments based MFIs where the latter subsidizes these MFIs in one way or the other which helped these MFIs to charge rate of interest much below others.

If MFIs are expected to play significant role in poverty reduction, there must be leveled ground for all MFIs to compete for the same market and ensure efficiency and financial viability to stay in the market developing financial leverage to expand outreach on a sustainable manner. An immense support from Government, donors and other stakeholders are required in letting MFIs stay in the market with the required number to serve the poor, as the contribution of most of MFIs is found to be low. No study, to the best of my knowledge, has made the trend analysis of market structure and performances of Ethiopian MFIs for necessary consideration. So far, most of researches made mainly focused on impact of microfinance on poverty, women empowerment, income generation, agricultural productivity (Alemayehu 2008)

The performance analysis made so far was only limited to either trend analysis of financial ratios or performance of one or very few MFIs only to show the performances of the sector are improving or worsening. This study therefore, investigates the degree of market share and market concentration taking up the performances of MFIs operating in Ethiopia. Its merit is to see the market structure of Ethiopian MFIs and its direction thereby discussing its negative implication and forward comments after necessary manipulation. The study will explore knowledge by reviewing the market structure/share and

performances of Ethiopian MFIs for six years whereby the study is expected to benefit policy makers, analysts, MFIs practitioners and others who are interested and want to make further research in the area.

### **1.3 OBJECTIVE OF THE STUDY**

The general objective of the study is to assess the market structure and performances of Ethiopian MFIs for necessary conclusion. The specific objectives of the study are:

- To assess the financial and operational performance of Ethiopian microfinance institutions
- To see the status of Ethiopian MFIs in general and that of large MFIs in particular making market structure and trend analysis of performances
- To draw conclusion from the analysis result of performances and market share of Ethiopian MFIs.

### **1.4 RESEARCH QUESTIONS**

- Has the performance of Ethiopian MFIs been improving or worsening?
- Has the market share of Ethiopian MFIs been falling in the hands of few MFIs? Is the situation improving or worsening?
- What is the magnitude of market share?
- Is large MFIs gender sensitive within the prevailing market structure/share?



## **1.5 SIGNIFICANCE OF THE STUDY**

The microfinance business is lately emerging phenomenon in Ethiopia and very limited studies have been undertaken in this area. As per the documents available at the Association of Ethiopian Microfinance Institutions, Ethiopian microfinance institutions are facing challenges with this regard. The sector is suffering of lack of research on client needs and on other areas. Most of the case studies are inclined to impact of microfinance Institutions. There are also efforts on the area of performance analysis which were limited to trend analysis of financial ratios and performances of one or very few MFIs. This study will review the overall industry performance and market share for six years so as to explore whether the trends of Ethiopian MFIs are in a positive and more competitive direction on the one hand and whether the rate of growth is improving where the supply of credit service is limited to below 20% of the existing demand on the other. Therefore, the study will throw light on these areas that would help contribute to the effort of strengthening the support of Government, donors and other stakeholders clearly knowing the challenges of most of Ethiopian MFIs. The research will also contribute to practitioners and policy makers by showing where the Ethiopian MFIs are in terms of performances and market share. Besides, this could be a base to conduct further studies on the area.

## **1.6 LMITATION OF THE STUDY**

This study focuses on the performances of Ethiopian microfinance institutions in general and top four MFIs in particular to throw light on the performance and existing market structure/market share of Ethiopian MFIs making trend analysis. The study mainly based on secondary sources and performance analysis is for few years and the study also employs limited indicators due to time and data constraint, among others. All these can have a limitation on the findings of the study. Apart these limitations, the study is believed to show the current status and future direction of performances of Ethiopian MFIs.

## CHAPTER TWO

### REVIEW OF LITERATURE

#### 2.1. CONCEPTS AND DEFINITIONS OF POVERTY

Historically, poverty has been related to income. People are said to be in poverty when they are deprived of income and other resources needed to sustain life (Townsend 2006). The new defined poverty line is \$1.25 a day (visit <http://www.globalissues.org/issue/2/causes-of-poverty>). It is closely linked to the lack of assets in the form of human, physical and social capital. The poor have very few productive assets: they lack oxen, a crucial asset for farming in the dominant ox-plough system, and in general, they lack livestock, a source of fuel, livestock products and manure, and the most important store of wealth. The poor depend relatively more on the environmental resource base for water and fuel (Dercon 1999).

Over the course it is understood that poverty goes beyond economic deprivation and has multifaceted features and expressed itself also in the forms of lack of access to education, health and other services, social exclusion and inability to be involved in some social activities such as decision-making at local and national levels. It includes personal happiness, harmony, peace, and freedom from anxiety and access to material items including food, income, shelter, clothing, land and other physical resources. At community level poverty is manifested in the form of absence or low levels of facilities and services like education, health, power, water and sanitation. (K.Awusabo 2009)

As per Chambers, poverty is classified into four categories. The first one is income-poverty while the second one is lack of material manifested in terms of lack of or little wealth and lack or low quality of other assets namely shelter, clothing, furniture, personal means of transport, radios or television, among others. The third meaning attached to poverty is expressed in terms of capability deprivation, referring to what we can or cannot do, can or cannot be and this can be seen in the form of skills and physical abilities, and self-respect in society. The last but not the least definition of poverty is expressed by one's level of access to education, training, mindsets, and experiences. The dimensions of poverty center not only income and material lack but also include lack of education, information, political clout, employment opportunities, poverty of time, insecurity, poor health and bad social relations (Chambers 2006). As one of the tools to fight poverty, microfinance initiatives offer beyond material benefits and contribute to the social and psychological aspects of the target group that prevent them from realizing their potential affecting their self esteem. It has significant role to play in changing conditions of ill-being (powerlessness, bad social relations, insecurity, material lack, physical weaknesses/illness) to wellbeing (freedom of choice and action, good social relations, enough for a good life, physical wellbeing and security) (Ibid)

In reference to Macpherson and silburn (1998) Abebe noted three definitions of poverty namely subsistence poverty approach, the basic needs approach, and the relative deprivation approach (Abebe 2006) where the former one is explained in terms of minimum income or resource that helps to maintain the

biological and physiological needs such as food, water, clothing and shelter while basic needs approach goes beyond physiological and biological need of individual to survive and recognizes the importance of a range of community services (safe drinking water, sanitation, transport, health and education). The latter one, relative deprivation approach, deals with measurement of poverty based up on comparison, often with some notion of prevailing living standards in the community. There are different reasons cited for causes of poverty. Lack of access to financial resources of the poor to run business venture is one of the causes to mention for poverty especially in Sub-Saharan African Countries (World Bank, 1996). Getahun noted that there are a number of factors caused poverty. Lack of: asset, employment opportunity, income, skill, technology, education, health, motivation, democracy and occurrences such as land degradation, deforestation, drought, civil war, and rapid population growth are some to mention (Getahun 1999).

As per the report of World Bank (1996), about 45 percent of the 590 million people in Sub Sahara Africa live below the national poverty line while the causes are cited as inadequate access to employment opportunities, lack/inadequate physical assets (such as land and capital), minimal access to credit, inadequate access to the means of supporting rural development in poor regions, inadequate access to markets where the poor can sell goods, services and low endowment of human capital, destruction of natural resources (leading to environmental degradation and poor productivity), inadequate access to assistance (for those living at the margin and those victimized by transitory

poverty) and participation failure to draw the poor in to the design of development programs.

Poverty having multiple characteristics and multifaceted nature has no single absolute and standardized definition (Getahun 1999). Scholars use various approaches to define poverty that ranges from the objective (quantifiable) to those which are subjective and qualitative in nature. One can substantiate this fact from the definitions of poverty summarized above from different sources.

The concept of poverty is classified into two: Absolute and relative poverty where the former one refers to a cross cutting level (commonly known poverty line) below which people are categorized as poor (Getahun 1999). The amount to be set for poverty line varies from time to time. The new defined poverty line is \$1.25 a day (visit <http://www.globalissues.org/issue/2/causes-of-poverty>). In the absolute poverty sense, inability to attain minimal standards of consumption to meet basic physiological and biological needs is the main feature to mention. As the word explain itself, relative poverty is defined as the standard of living of people taking into account their per capita income or expenditure, among others. In relative term, some people may be enjoying better condition of life when compared to other social groups (World Bank, 1990). Getahun (1999) emphasized that as relative poverty is primarily concerned with the distribution of income and inequality in living conditions among population, equalization of the distribution of income is believed to be important to eliminate relative poverty.

One can conclude from the above discussion that poverty is a multidimensional problem highly linked to political, economic, cultural, and ecological system demanding multiplicity of actors to eradicate. Solutions are as multifaceted as causes as microfinance alone does not improve roads, housing, water supply, education and health services, it can play an important role in making these and other sustainable contributions to the community. Poverty eradication is a complex mission and requires commitment and involvement of individual, household, community, national, and global efforts.

## **2.2 THE EMERGENCE OF MICROFINANCE**

The history of microfinance dates back to 1950s while the roots of institutionalized form of microfinance traced back to that of Muhammad Yunus, founder of Bangladesh's Grameen Bank (Armendariz and Morduch 2005). Following the severe poverty condition of Bangladesh in 1970s (over 80% of the population fell below poverty line), Dr. Muhammad Yunus started a series of experiments lending to poor households mainly focusing on women in 1976. He continued his experiment to check whether the poor were credit worthy and the service could be availed without physical collateral. This was with the presumption of lack of access to credit is the greatest constraint on the economic advancement of the rural poor where he found the poor are creditworthy and there are also possible to extend to the poor material collateral through group lending methodology (Ibid). Following this group lending scheme, Grameen bank was established in 1983 with the government

of Bangladesh holding 90% of the shares in paid up capital. The Bank now serves more than 2.4 million clients and is a model for many countries (Ledgerwood 1999).

The Grameen Bank (2000) has identified fourteen different microfinance models. Model one focused on three areas which are common in the microfinance industry. These are Rotating savings and credit Association (ROSCAs), the Grameen Bank and the Village Banking. The former one, which is a very common form of saving and credit, is formed when a group of people come together to make planned fixed regular contributions to a common fund where a lump sum is given to one member of the group in each cycle (Grameen Bank, 2000). The second model is based on group peer pressure where loans are made to individuals in groups (with a member ranging from four to seven) and group members collectively guarantee the loan taken and subsequent loans is purely dependent on the successful repayment of all group members. This model is commonly used by microfinance industry. The last but not the least is village banking model which is credit and savings associations established by NGOs and managed by the community to provide financial services, build community self-help groups and help members to accumulate savings. Members, who are responsible to run the bank, usually range between 25 to 50 and should be from low low-income individuals who are in need to involve and improve their lives through self-employment activities. They are also responsible to elect their own officers, establish their own by-laws, distribute loans to individuals and collect payments and services (Ibid). The



loans given to members not backed either by material collateral or group guarantee but purely backed by moral collateral i.e. the promise that the group stands behind each loan. In this model, the MFI in charge lends loan capital to the village bank and the latter in turn lends to the members. To inculcate the culture of saving, all members are required to save 20% of the loan amount per each loan cycle.

In Ethiopian case, before the emergence of microfinance, the main credit sources of micro-entrepreneurs in Ethiopia were government programs, cooperatives and Non government Organizations. The programs were charging subsidized interest with quite understanding of that the poor do not have the capacity to pay market interest rates (Wolday 2000). As cited by Alemayehu in reference to Getachew Teka (2005) many NGOs started providing micro credit along with relief activities following the 1984/85 severe drought and famine. Occasionally, Government also provided loans mainly for the purchase of oxen through the then Rural finance Department of the Ministry of Agriculture and cooperatives.

Despite this effort, loans were not based on the proper needs assessment on the one hand and there was no system in place to know the effectiveness of the credit on the other. During the era of command economy (1974-91), the regime forced the Development Bank of Ethiopia (DBE) and the commercial Bank of Ethiopia (CBE) to extend loans to cooperatives. Likewise CBE has also started availing loans for agricultural inputs (fertilizers and improved seeds). The DBE

has also provided loans to micro and small-scale operators in selected towns (Ibid). It is proved that most of the programs faced the challenge of low recovery, high arrears. There was also less attention from most of the Non Governmental Organizations in collecting back the loan disbursed. Such intention from NGOs has contributed a lot for huge default and loss of saving culture of people. This has critically affected the credit culture of the community both in urban and rural settings (Wolday 2000).

Microfinance is defined as the provision of financial services to the poor and low-income clients where service providers are commonly known as microfinance institutions developed over the last 30 years to deliver very small loans to unsalaried borrowers with little or no collateral and it also includes group lending methodology and liability on top of inculcating the culture of saving. In a broader sense, microfinance refers to sector where low-income households have permanent access to a range of high quality and affordable financial services to engage in income generating activities, build assets, stabilize consumption, and protect against risks. In this sense, the services of MFIs include but not limited to savings, credit, insurance, remittances, and payments (Visit [www.microfinancegateway.com/section/faq](http://www.microfinancegateway.com/section/faq))

Broader sense of Microfinance Institutions (MFIs) is developed over the last few decades. It is possible to note from different sources that starting from 1950s through 1970s, governments and donors played the role of MFIs and were providing subsidized agricultural credit to small and marginal farmers to

enhance their productivity and incomes. In 1980s, the concept of micro-enterprise credit came to picture and started targeting poor women to invest in business activities to accumulate assets in order to raise income of the household on the one hand and enhance their welfare on the other. The achievement recorded at this level has invited nongovernmental organizations (NGOs) to start availing provision of financial services to the poor. Most of these institutions transformed themselves into formal financial institutions in 1990s, in order to access and on-lend client savings, thus enhancing their outreach. (Visit <http://cgap.org>)

The word "micro" prefix in microfinance refers to the size of the financial transactions not imply the size of microfinance provider institutions. Microfinance is a general term to describe financial services to low-income individuals having no access to banking services. Microfinance can also be seen as one of the tools to lift low income people out of poverty. It is primarily focused on credit and savings while the sector expands its horizon of service to insurance, leasing, payment transfers and remittances (Ibid).

In reference to Basu and Woller (2004), Letenah discussed the debate on whether MFIs should continue to be donor supported or to their own leg. He further stated that there are two schools of thought with this regard: welfarist and institutionalist. Welfarist school of thought says microfinance should be sustainable with donor funds while the other school of thought, institutionalist

says microfinance should generate enough revenue to cover their own costs as donor's funds are unpredictable (Letenah 2009)

Institutionalized microfinance development in Ethiopia is a recent phenomenon. Majority of the poor had been accessing financial service through informal channels namely Iqub (Rotating Saving and Credit Associations), Iddir (form of mutual support mainly for funeral service), Moneylenders, friends, and relatives. Though the recovery rate of informal financial service providers is high and benefit the borrower with flexible loan terms, the rate of interest is very high and unaffordable (Wolday, 2002). The history of formal establishment of Ethiopian Microfinance institution dates back to 1997 following the issuance of Proclamation No. 40/1996 which lately replaced by proclamation No. 626/2009. The National Bank of Ethiopia (NBE) is authorized to license, regulate and supervise MFIs activities. As per the proclamation article 3(2), microfinance is defined as the provision of financial services like accepting savings extend credit, drawing and accepting drafts payable, providing money transfer services and others specified in the Article (proclamation No. 626/2009). It is clearly stated in the proclamation that microfinance institutions can deliver loans to clients based on two guarantee arrangements namely group Guarantees without any additional property collateral and real collateral for individual based lending system (Yigrem 2010). The lower income segments of the society were previously excluded from financial services of formal banking system to engage in any productive economic activities as the existing system was full of restrictions and not pro-

poor. This has led to give more attention to microfinance as financial intermediary through which the poor section of the population gets access to financial services. In order to provide microfinance services to the lower income section of the population on the one hand and to carry out microfinance service in a sustainable way on the other, the proclamation of licensing and supervision of microfinance institutions (proclamation number 40/1996) was issued in 1996.

Currently there are 30 MFIs operating in Ethiopia most of which have evolved either from NGO credit programs or credit component of the government programs changed to MFI as per the requirement of proclamation No. 40/1996 (Degefe, 2009). As per the commercial code of Ethiopia, MFIs can be established in the form of Share Company where shares are mainly owned by regional governments, NGOs, associations and individuals of Ethiopian origin (Seyed, 2006). NGOs are prohibited by the proclamation to form MFIs and directly involve in microfinance activities. Ethiopian MFIs predominantly use group lending approach though it is also possible to employ individual lending system (Wolday 2002). As per the proclamation No.626/2009 issued for licensing and supervision of activities of MFIs, the purpose and activity of micro financing are broadly defined. Microfinance institutions are able to collect deposits and offer credit to rural and urban community engaged in various activities. It is also possible for MFIs to involve in micro-insurance activity and purchase income generating financial instruments such as

treasury bills and other short term instruments as the National Bank may determine as appropriate.

The ownership structure of Ethiopian MFIs can be summarized under those mainly owned by regional governments and non-profit civil organizations on the one hand and MFIs whose equity structures have been sponsored by foreign donors (who have contributed the initial capital for required registration) on the other (Al-Bagdadi 2002). The regulatory framework doesn't allow unregulated MFI to run the business of micro financing and restricts foreigners from holding shares. Al-Bagdadi stressed that the influence of regional governments on MFIs is highly debated in Ethiopia. Government related MFIs received far-reaching support from regional Governments and grass-root administrations that has resulted in exponential growth and good performance but this reliance has challenged the independence of MFIs in terms of client selection and other management decisions that will put the sustainability of these institutions in danger (Ibid).

The performance of Ethiopian microfinance industry recorded over one and half decades proved to be prominent when measured in terms of their rural presence, outreach, recovery and sustainability. Despite this, there is a long way to go for MFIs as all managed to achieve about 20% of the demand for credit. Although the interest rates of most MFIs in Ethiopia were relatively lower than other Sub-Saharan Countries, the many MFIs are operationally efficient (Wolday, 2003). With regard to the contribution of Ethiopian MFIs, there is a clear difference between government backed MFIs that have relatively

strong support from regional governments and the rest mainly supported by international NGOs. According to AEMFI occasional paper number 2, all MFIs in Ethiopia do have government support and all depend on donor support as one of the major source of fund for loans. It is stressed that there is no basic difference in terms of the structures, process of control and the content of governance between the two groups. The actual difference between the two categories of MFIs lies in the support of the MFIs obtains from the grass root level government administration. The region-specific MFIs do have all-rounded support to implement their mission and vision from the grass-roots government administrative organizations (Wolday 2000).

Apart from the degree of emphasis on the region specific or non region specific MFIs, the government of Ethiopia has paid due attention to MFIs understanding the potential of these institutions to fight the multifaceted nature of poverty prevailing in the country in general and in rural settings in particular in its PASDEP strategy (MOFED, 2006). However, Ethiopian MFIs is a recent phenomenon that dates back to 1997 and have less experience when compared to other developing countries. Despite this fact, it becomes a widely accepted tool to fight poverty as the supply of services to the poor may improve the efficiency and effectiveness of resource where microfinance can have a multiplier effect on people's standard of living. It is believed that the greatest contribution of microfinance is in terms of empowerment of people, developing confidence, self-esteem, and the financial means to play a larger role in their development. Microfinance services are considered as one of the policy

instruments of the Government and Non Government Organizations (NGOs) that would help the able poor increase output and productivity, induce technology adoption, improve input supply, increase income, reduce poverty and attain food security (AEMFI 2000b).

### **2.3 LEGAL FRAMEWORKS**

As per proclamation No.40/1996, capital requirement for the establishment of new MFI is EBR 200,000 which lately rose to EBR 1.5 million by proclamation No.626/2009. The legal framework allows market entry of new MFIs and start to collect savings from the general public to be used for on lending. This proclamation states that loans are delivered to clients based on group guarantees with no property collateral on the one hand and individual lending based on real collateral on the other. Formerly, the maximum loan was fixed to EBR 5000 by NBE Directive MFI/05/1996 but directive, MFI/17/2002, removed this cap partly. MFIs that have passed the 1 million savings mark are free to set loan sizes, but loans over EBR 5000 should not exceed more than 20% of total disbursements and any individual loan cannot exceed 0.5% of the MFI's total capital. The loan to be extended to a group also shouldn't exceed 4% of the total capital of the institution. With regard to loan term, Directive MFI/05/1996 doesn't allow loan period over twelve months which later directive extended this period to 24 months for loans up to EBR 5000 and 60 months for loans above that amount. MFIs are free to fix interest rate on lending and saving (rate of interest on saving shouldn't be below bank's rate).



The legal framework allows MFIs to deliver credit, take savings as well as time and demand deposits, among others. Regulation calls for quarterly reporting to the NBE as per directive MFI/07/1996. MFIs are also required to send their externally audited annual statements within six months of closure of the fiscal year. All MFIs can open as many branches as possible and required to inform NBE in writing within 15 days of the opening. Closure of branches also requires formal approval of NBE at least three months before actual closure. In line with taxation, MFIs distributing dividends are responsible for paying profit tax while others are tax exempted. As per directive No.MFI/17/2002 issued by NBE, loan provision is 25%, 50% and 100% for past due 91-180 days, 180-365 days and over 365 days respectively. Directive MFI/15/2002 requires reregistered MFIs to maintain at all times at least 20% of their total savings in liquid assets. All MFIs are required to renew their license every year.

## **2.4 SITUATION OF POVERTY IN ETHIOPIA**

Poverty is mainly the feature of Africa, Asia and Latin America. Ethiopia is one of the developing countries having the lowest per capita incomes in the world. Recent estimates put per capita GNP at \$110, which is less than one-fourth of the average of Sub-Sahara Africa (Dercon 1999). The majority of people are living in rural areas where poverty is severe as compared to urban areas. About 45 percent of the rural populations are below the nationally defined poverty line, while it is 37 percent for urban population in 2000. This figure has declined significantly for rural areas as compared with urban areas and

reached 39% and 35% by the year 2005 respectively (MoFED 2006). Most of the poor are women, children, the elderly, small scale farmers and unskilled workers. These people lack the financial capacity to meet the minimum standards of living (AEMFI, 2005).

In order to fight and contribute to poverty alleviation interventions at the local level, a series of priorities can be drawn from the recent experience in Ethiopia. As per the poverty assessment report of Dercon, six areas of attention are identified for necessary consideration. The first and foremost is moving away from the current emphasis in rural development policies to just increase food production, using a technology-based strategy, since these policies are unlikely to effectively reach the poor. Secondly, access to education and health by the poor needs demand-side policies, beyond the current focus on increasing supply by expanding facilities. Thirdly, since rural households are very vulnerable to shocks, efforts should not just focus on increasing production or income, but also on strengthening the ability of the poor to deal with risk via their own coping strategies. Fourthly, while increasing agricultural income will help the poor, in many areas it will be necessary to strengthen the ability of the poor to earn from non-agricultural activities, by alleviating the constraints on entry. Fifthly, rural asset formation needs to be encouraged, both at the household level and at the community level. Sixthly, interventions need effective participation, for example via traditional community level organizations (Dercon 1999)

Ethiopia started the fight against poverty using comprehensive poverty reduction strategy to reduce the level of poverty that accounts for 49.5% of the total population in 1994/95. With the implementation of this strategy, the poverty level has declined steadily and reached 38.7% in 2004/05. It is indicated in the five year Growth and Transformation Plan of 2010/11-14/15 that Ethiopia would achieve halving poverty by 2015 and projects that both income and food poverty will be declined to 22.2% and 21.22% in 2014/15 from 29.2% and 28.2% in 2009/10 in that order. As development of basic infrastructures has a bearing effect on poverty reduction, it has received due attention. Accordingly, the hydroelectric power generation capacity of the country has increased its coverage from 16% in 2004/05 to 41% in 2009/10. Likewise, the telecommunication service coverage has reached 50% within a 5 km radius while the road density has increased from 29km/1000 km<sup>2</sup> in 2000/01 to 44.5km/1000km<sup>2</sup> in 2009/10. This has resulted in reduction of average time taken to reach all weather roads from about 7 hours in early 2000 to 3.7 hours in 2009/10. The population living below the poverty line has declined to 29% as of 2009/10 (MoFED 2010).

Well noting the hindrance of poverty to access health, education and other services, this area has attracted global as well as national attention. As education is one of the tools to fight poverty, this area has received due consideration. Accordingly, the Gross Enrolment Rate (GER) for primary school (grades 1-8) reached 95.9 per cent (93.per cent for female and 98.7 per cent for male) while the Net Enrolment Rate (NER) stood at 89.3 per cent (87.9 for male

and 86.5 percent for female) (MOE 2008/09). In relation to health, infant mortality rate reached 77 per 1,000 live births and is expected to further reduce to 31 per 1,000 live births by 2014/15. As one of the health indicators, immunization has shown significant improvement and reached 65.5% in 2008/09 from 22.3% in 1999/2000. Ethiopia is also on the track to reduce child mortality by two-thirds by the year 2015 (MoFED 2008/09).

As per the report of United Nations Development Program, the decline in rural poverty since 1995/96 is proved to be substantial compared to the rising poverty levels in the urban areas. It is stated that the poverty indices of rural areas by the year 2004/05 in terms of headcount, poverty gap and poverty severity were brought down by 13%, 31%, and 41% respectively when compared to the levels of five years ago. There are ups and downs with regard to headcount index of urban areas. It was raised by 11 percent between 1995/96 and 1999/2000 and declined marginally (5%) between 1999/2000 and 2004/05. The income poverty of rural and urban areas is 39.3% and 35.1% respectively (UNDP 2010). Poverty is more pronounced in the rural settings as compared to the urban areas. The situation worsened recently because of sharp increases in the prices of food and fertilizers on world markets, which made it more difficult for poor households to secure adequate food supplies.

Though the major share of expenditure goes to poverty oriented sectors namely agriculture, education, health, water and road development during the past

years, Ethiopia remained one of the poorest countries where very huge number of the population lives under the poverty line. Ethiopia is one of the poorest countries and underdeveloped countries in the world facing severe poverty and ranks 174<sup>th</sup> out of 187 countries (UNDP, 2011). There are various factors cited for the severity of poverty of which some are noted here under.

- Poor agricultural products marketing strategies.
- Degraded ecology
- Poor development of Technological knowhow.
- Poor development transportation facilities.
- Poor involvement of rural people in programs meant for them
- Erratic rainfall
- Shortage of food products on account of various factors.
- Absence of proper socio economic infrastructure. This includes but not limited to lack of potable water, proper education and health programs.

(Visit <http://finance.mapsofworld.com/economy/ethiopia/poverty.html>)

Poverty and food insecurity, the main challenges and fundamental issues of economic development of Ethiopia, mainly caused by lack of income, assets, employment opportunities, skills, education, health and infrastructure where soil degradation, deforestation, recurrent drought, civil war, and inappropriate Policies aggravated the situation further (AEMFI 2000b).

## 2.5 MARKET CONCENTRATION

As per the definition of OECD (2007) cited by Solomon (2011), market concentration measures the relative position of large enterprises in the provision of specific goods or services. It is a function of the number of MFIs in a market and their respective market shares. The rationale underlying the measurement of industry or market concentration is the industrial organization economic theory which suggests that, other things being equal, high levels of market concentration are more conducive to firms engaging in monopolistic practices which leads to misallocation of resources and poor economic performance. Market concentration in this context is used as one possible indicator of market power. The concentration ratio is the percentage of market share owned by the largest  $m$  MFIs in an industry, where  $m$  is a specified number of MFIs, the largest 4 MFIs under consideration. The study will also consider all Ethiopian MFIs for comparison purpose. The market share can be computed by using the percentage of active clients and loan portfolio. If the concentration ratio is 100%, it shows an extreme concentration of market (pure monopoly). Low concentration and medium concentration are defined as (0% to 50%) and (50% to 80%) respectively. The concentration ranging from 80% to 100% is defined as monopoly (Solomon 2011).

The other approach in use to measure market concentration is the HHI (Herfindahl-Hirschman Index) calculated by summing the squares of the individual market shares of all the MFIs under consideration. The HHI scores range from 0 – for perfectly competitive industry to 10,000 for a pure

monopoly. The HHI ranges from 10,000 (in the case of a pure monopoly) to a number approaching zero (in the case of an atomistic market). Although it is desirable to include all MFIs in the calculation, lack of information about small MFIs is not critical because such firms do not affect the HHI significantly.

## **2.6 MICROFINANCE AND DEVELOPMENT STRATEGIES**

As per the world development report, one fifth of the world's population live on less than \$1 a day out of which 44% living in South Asia (UNDP, 2002). This has attracted the attention of international community to think strategically whereby goals are set globally called the millennium Development Goals (MDG) in 2000 (UNDP, 2002). The achievement of Millennium Development Goals are both directly and indirectly improve the livelihood of the poor as majority of these goals are highly related to poverty reduction. The survey conducted at the end of 2002 by Credit Summit Campaign cited in Wolday (2005) shows that more than 67.6 million clients around the globe have been benefited of which about 41.6 million are the poorest. As per the Micro-credit Summit estimate at the end of 2005, microfinance institutions are reaching to 100 million poorest people in the world. The UN declared 2005 as a year of micro-credit to bring the microfinance into forefront and integrate with the formal financial system.

In order to combat the multifaceted nature of poverty that manifested itself in terms of income poverty and human deprivation of various aspects, developing countries started preparing their own country specific policies taking into

account the national priorities and local realities (World Bank, 2000). These policies and strategies are expected to foster sustained economic growth. Ethiopia formally prepared anti-poverty reduction strategy called PASDEP (A Plan from Accelerated and Sustained Development to End Poverty), which is a comprehensive framework for all development programmers in the country and thus "lay out the direction for accelerated, sustained, and people centered economic development as well as to pave the ground work for the attainment of the MDG, by 2015,". The plan in the five year phase aimed to achieve the goals and targets set in the MDGs within the given timeframe (MOFED, 2006).

On top of others, the PASDEP gave high attention for the development and promotion of MFIs to alleviate both urban and rural poverty. Agriculture has received top attention where agriculture value added is expected to grow 6.2% which is highly dependent on diffusion of technology, successful export promotion policies and the availability of affordable credit which can be ensured through promotion of MFIs. It is further accepted that MFIs have critical role to play in expanding financial service outreach to the needy low income groups who are out of the orbit of banking service so as to ensure the efficiency and effectiveness of scarce resources (Ibid). The coming into existence of sustainable microfinance institutions to reach a large number of rural and urban poor, who are out of the conventional financial system (Commercial Banks), has been a prime component of the new development strategy of Ethiopia (AEMFI 2000b).



## **2.7 PERFORMANCE MEASUREMENT IN MICROFINANCE**

Microfinance intervention, believed to be one of the appropriate tools to combat poverty, has to receive due attentions from all stakeholders to assess its achievements taking into account necessary indicators. As any global industry, microfinance needs to have accepted and common standards to measure performances in line with industry standard at national, region and international level. These standards allow managers and board members to know how their institution is performing. With the coming to picture of such practice it is hardly possible for Institutions to run away from reality.

Now- a -days, transparency has received due attention in microfinance and this is ensured through using financial and institutional indicators to measure the risk and performance of microfinance institutions (MFIs). So, it is hard to achieve transparency if there is no agreement on how indicators measuring financial condition, risk and performance which should be named and calculated based on the objective of the uses (Jansson 2003). A growing acceptance of standards for microfinance has emerged since the early 1990s. The SEEP Network produced financial ratio Analysis for Microfinance Institutions in 1995, which became the standard set of 16 ratios for MFIs against which their performances are monitored to ensure transparency and accountability (SEEP 2005). Following this, there were collective effort from MFIs, SEEP Network, rating firms, and donor agencies whereby they collectively developed Microfinance Financial definitions guidelines wherein definitions of Selected Financial Terms, Ratios, and Adjustments for

Microfinance were made in 2002. This was the result of painstaking discussions, negotiations, and compromises to come up with generally accepted definitions for the industry and put forward standard definitions for selected financial terms on top of suggesting a standard method of calculating financial ratios (Ibid). Common standards provide the language that enables MFIs to communicate with other participants in the industry, whether they are down the street or across the ocean. In recent decades, MFIs are in operation with social and sustainability mission and required to assess their viability and soundness compared to industry benchmarks. In order to know the status of MFIs SEEP Network and CGAP widely used sustainability & profitability, asset & liability management, portfolio quality, efficiency & productivity and breadth, depth of outreach to evaluate financial and operational performance of institutions of which this study mainly focuses on breadth, depth of outreach, PAR, Leverage profitability and efficiency.

### **Breadth and depth of outreach**

Breadth of outreach referred to number of outreach in terms of borrowers while depth of outreach shows average outstanding loan balance, which roughly related to client poverty, as better off clients tend to be uninterested in smaller loans. The average outstanding balance includes only loan amounts that clients have not yet repaid (CGAP 2009). The depth of outreach indicator shows how far MFIs reach poor clients, as poverty reduction is their explicit objective and social mission is one of their goals to achieve. Average outstanding balance

is gross amount of loans to number of active clients. This can also be measured in terms of average outstanding to GNI per capita. Therefore, this study will deal with these indicators for trend analysis of Ethiopian MFIs in general and top four MFIs in particular.

### **Profitability**

Profitability reflects the ability of MFI to continue operating and grow in the future. It is measured in terms of return on equity (ROE) and return on assets (ROA). ROE and ROA are the most commonly used indicators to measure profitability of institutions. The former indicator measures the return of investment while ROA indicates how well an MFI is managing its assets to optimize its profitability. The ratio includes return on the portfolio, and other revenue generated from investments and other operating activities. Unlike ROE, this ratio measures profitability regardless of the institution's underlying funding structure. ROA should be positive. A positive correlation exists between this ratio and Portfolio to Assets; the ratio is higher for institutions that maintain a large percentage of the assets in the Gross Loan Portfolio. It is plain fact that if portfolio quality tends to be low or efficiency is poor, it will be reflected in profitability. Profitability analysis could be complicated by various factors as a significant number of microfinance institutions still receive Grants and subsidized loans (Jansson 2003). Therefore adjustment should be made for subsidized cost of funds, in-kind subsidy, and inflation. Return on equity is measured in terms of adjusted operating income, net of taxes to adjusted

average total equity (**Adjusted net operating income, net of taxes/ adjusted average total equity**) while return on asset is measured in terms of adjusted net operating income, net of taxes to adjusted average total asset (**Adjusted net operating income, net of taxes/ adjusted average total equity**) (SEEP 2005)

### **Efficiency and productivity**

An efficiency indicator shows that how well the institution is streamlining its operations. It also reflects how efficiently an MFI is using its resources. Two indicators are commonly used to measure the cost effectiveness of MFIs. These are operating expense ratio (OER) and cost per active clients. Both ratios do not include interest paid on the MFI's liabilities and loan loss provision expenses. The former one is defined as adjusted operating expense to adjusted gross loan portfolio while the latter is measured as adjusted expense to adjusted average number of active clients (Ibid). Operating Expense ratio is the most widely used indicator of efficiency which allows a quick comparison between an MFI's portfolio yield with its personnel and administrative expenses. It compares how much it earns on loans made and how much it spends to process and monitor the loans in question.

Productivity indicators, reflecting the amount of output per unit of input in general explained in terms of borrowers per Loan Officer ratio in micro financing in particular simply to measure the personnel productivity of loan

officer. MFIs are assumed to have caseload targets, in their yearly operational and strategic plan, which is an easy and effective way to measure progress against set targets. There is industry standard as well at national, regional and international levels. This ratio may be distorted if there is a probability of adding a group of new loan officers near the end of the period and trend analysis will minimize the degree of distortion. Productivity is also measured using the overall productivity of staff i.e. Active Clients per Staff Members

### **Portfolio Quality**

Portfolio quality is a critical area to be taken up for analysis as loan portfolio is by far largest asset and the largest source of risk for any micro financing institutions. This is absolutely important for microfinance institutions as the lion share of loans of MFIs are not backed by physical collateral. The most widely used measure of portfolio quality in the microfinance industry is Portfolio at Risk (PAR), which is easy to understand, and does show the exact level of risk. It is comparable across institutions for necessary consideration. As PAR is one of the important indicators used to show the health of the MFIs, failure to keep delinquency at very low level, can quickly spin out of control. This has to be computed periodically in order to keep the healthy functioning of MFIs. More than any other indicators, this one deserves special care to ensure meaningful and reliable reporting (CGAP 2009). An indicator for portfolio quality, portfolio at risk (PAR) is computed as follows. The widely period used time for PAR calculation is greater than 30 days. Therefore, PAR > 30 days is

outstanding principal balance of all past due more than 30 days to outstanding principal of all loans

### **Leverage**

Leverage refers to the extent to which a MFI borrows money relative to its amount of equity. In other words, it answers the question of how many additional dollars can be mobilized from commercial sources for every dollar worth of funds owned by the MFI. The most widely used measure of leverage is the debt equity ratio.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

Institutionalized microfinance came to existence in late 1990s following proclamation No.40/1996 in Ethiopia availing financial services to people who have been out of the orbit of conventional financial Institutions such as commercial banks. These MFIs managed to serve less than 20% of the credit demand. The overall performance of all MFIs in general and the best performing four MFIs in particular are taken up for this study to assess the financial and Operational performance of Microfinance Institutions. The microfinance institutions are selected following the method introduced by Ethiopian Microfinance Institutions and applied by same MFIs performance analysis where the scale of operation (number of active clients) a criterion to rank.

#### **3.1. RESEARCH DESIGN**

As the theme of this research is to assess the market share and market concentration and performances of MFIs, the study used an explanatory approach. Ratios and trend analysis for the Ethiopian MFIs for selected performance indicators are employed for the exploration.

#### **3.2. DATA SOURCE**

The study covers all MFIs operating in Ethiopia with a main focus on the top four MFIs and the analysis has been made for the period of 2005 to 2010. It is

mainly based on secondary source of data obtained from the records of AEMFI, Reports, proceedings, bulletins, and internet. Some sort of primary data are also collected from AEMFI and some 20% of practitioners.

### **3.3. SAMPLING TECHNIQUES**

The study addresses the performances of Ethiopian microfinance industry and four top ranking MFIs for market structure analysis whereby these top four microfinance institutions are selected based on the size of the institutions classified as per the method introduced by the Association of Ethiopian microfinance Institutions (AEMFI) and applied by same for Ethiopian microfinance institutions performance analysis report where active clients has been taken up as a criterion. The standard classification of MFIs in terms of size according to AEMFI Bulletin is those having active clients of less than or equal to 10,000 are small, those having active clients between 10,000 and 50,000 are medium and those above 50,000 active clients are large. Accordingly, the study focused on the Ethiopian MFIs in general and top four MFIs in particular. The large sized MFIs are Amhara Credit & Saving Institutions (ACSI), Dedebit Credit & Saving Institution (DECSI), Oromia Credit & Saving Share Company (OCSSO), and Omo Microfinance Institution.



### **3.4. DATA COLLECTION METHODS**

There are many factors to consider in choosing methods, but decisions should be guided primarily by the aim of the research (Laws with Harper and Marcus, 2003). Secondary data used for this study are collected from Association of Ethiopian Microfinance Institutions (AEMFI), bulletins, and internet, among others. AEMFI official history starts in June 1999. The key motives to build a united Micro Finance Association have been the facilitation of information and experience sharing on top of others. It is also in charge of publishing annual MFIs performances analysis report with due attention to key performance indicators. Survey questions attached as annex have been designed and employed for both secondary and primary data collection.

### **3.5. METHOD OF DATA ANALYSIS**

Data are summarized in the form of tables, figures and analyzed using Microsoft excel. Market concentration analysis used HHI (Herfindahl-Hirschman Index) to measure competitiveness of the micro financing sector in Ethiopia. The HHI is calculated by summing the squares of the individual market shares of all the participants. Unlike the four-firm concentration ratio, the HHI reflects both the distribution of the market shares of the top four MFIs and the composition of the market outside the top four MFIs. It is broadly characterized as un-concentrated (HHI below 1000), moderately concentrated (HHI between 1000 and 1800), and highly concentrated (HHI above 1800).

Besides, data are analyzed using Profitability, productivity, leverage and efficiency ratios on top of breadth and depth outreach analysis. The widely used indicators and ratios employed by SEEP Network and CGAP and formula recommended for same will be implemented for necessary analysis and conclusion.

## CHAPTER FOUR

### DATA ANALYSIS AND RESULTS PRESENTATION

#### 4.1 MARKET STRUCTURE OF ETHIOPIAN MFIs

This sub section presents empirical results of the market structure of Ethiopian microfinance industry for which secondary data have been employed for the analysis. The top performing four MFIs are identified for the analysis based on number of active borrowers where the outreach of active borrowers and volume of loan portfolio are summarized from Bulletins of AEMFI and from AEMFI through survey questions for the year 2010.

The means to measure market concentration cited under section 2.5, classified the existing market into three namely low concentration, medium concentration and high concentration where the market share ranges from 0% to 50%, 50% to 80% and 80% to 100% respectively in the case of concentration ratio while HHI considered as un-concentrated (below 1000), moderately concentrated (1000 and 1800), and highly concentrated (above 1800).

**Table 4.1a** shows that market structure of Ethiopian MFIs sector is characterized by high concentration for all years except in 2006 (when near to high concentration was recorded), 2009 and 2010 while the average for six years is considered to be moderate. The concentration ratio ranges from 70% to 83% that means the remaining 26 MFIs constituted only 17% to 30% of the market share in terms of active borrowers. There is also significant difference

among the top four MFIs where the first two took 44% to 67% and 54% on average for the six years under review. The concentration ratio is somewhat constant except for 2009 where 11% decline was recorded. The market structure of Ethiopian MFIs has shown remarkable improvement and become moderate starting from 2009.

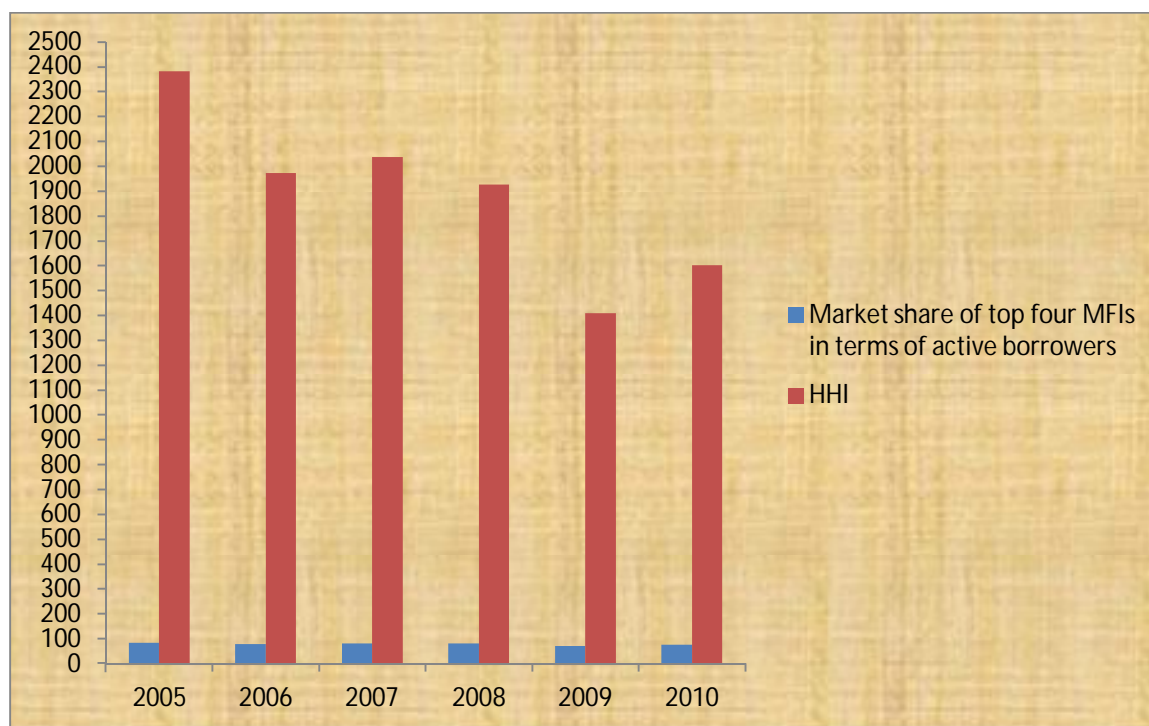
It is common fact that HHI ranging up to 10,000 is for perfectly competitive industry. The HHI ranging from 1409 to 2381 suggests that Ethiopian microfinance industry has been facing high market concentration except for the last two years when moderate is recorded. As can be deduced from concentration ratio, there is 5% decline in market share of the first four MFIs when comparing 2005 performance with the average of 6 years. These MFIs are regional government based operating in a specific region. Amhara credit and Saving Institution (ASCSI) (relicensed to operate nationwide very recently), Dedebit Credit and Saving Institution (DECSI), OMO Saving and Credit Institution and Oromia Credit and Saving Share Company (OCSSCO) are operating in Amhara, Tigray, Southern Nations and Nationalities and Oromia National Regional State respectively.

Table 4.1a market structure in terms of active borrowers

		Market share (%) and HHI of top four MFIs					
S/N	Name of MFI	2005	2006	2007	2008	2009	2010
1	ACSI	34	34	34	32	28	28
2	DECSI	33	25	24	21	16	17
3	OMO	6	7	9	10	12	13
4	OCSSCO	10	12	15	19	15	19
Total		83	78	82	81	70	77
HHI		2,381	1,974	2,038	1,926	1,409	1603

Source: Researcher's own computation

**Figure 4.1a Concentration results based on concentration ratio and HHI indices**



Like HHI, concentration ratio has ranges to define the degree of market concentration and it ranges from 0% to 100% where 100% is the feature of pure monopoly. Portfolio distribution of the Ethiopian MFIs is summarized in **table 4.1b** using HHI and concentration ratio where the first two MFIs have taken 49% to 69% of the total loan portfolio of the industry. As can easily be viewed from table seen below, four top performing institutions took the lion share which falls between 70% and 86% of the total loan portfolio of Ethiopian MFIs where it is possible to deduct that the share of the rest MFIs varies between 14% and 30%. HHI also indicates that there is significant market concentration except in 2009 and 2010. Concentration ratio shows that there

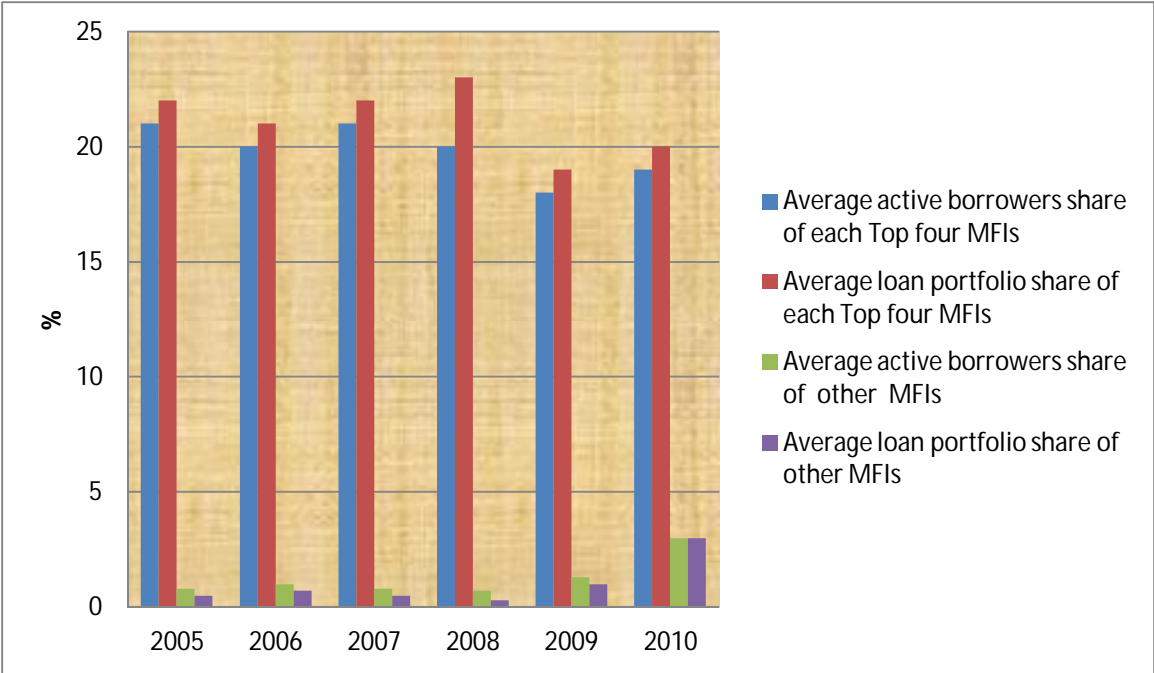
are insignificant ups and down over the six years and 3% decline by the year 2010 when compared to 2005 and 2% decline when compared to average of the six years under review. As per the annual report of AEMFI, the number of MFIs has increased by 4 during six years. It was 26 in 2005, 27 in 2006 and 2007 and finally increased by three in 2008 and remained 30 in 2009 and 2010 (AEMFI 2011). It is possible to note from the aforesaid statement that the decline of market share of top four MFIs is not on account of increase in number of MFIs but due to increase in average market share of the remaining MFIs (refer table 4.1b and figure 4.1b) . Generally, the Ethiopian MFIs market structure characterized by high concentration during the first four years and started to become moderate in the last two years.

Table 4.1b market structure in terms of loan portfolio

		Market share (%) Vs operation years					
S/N	Name of MFI	2005	2006	2007	2008	2009	2010
1	ACSI	27	31	32	32	27	29
2	DECSI	33	33	34	30	23	25
3	OMO	5	5	6	9	8	9
4	OCSSCO	10	10	12	15	12	17
Total		82	79	84	86	70	79
HHI		2,573	2,175	2,360	2,230	1,421	1,836

Source: Researcher's own computation

Figure 4.1b Average market share over the 6 years



Though the share of top four MFIs has faced an incidence of decline while others experienced a sort of improvement, there is disturbing difference among these institutions.



## **4.2 PERFORMANCES OF ETHIOPIAN MICROFINANCE INSTITUTIONS**

### **4.2.1 Client and portfolio outreach**

In combating backwardness caused by various factors, MFIs came to existence so as to play pertinent role in reducing the incidence of poverty availing financial and non financial services to the resource poor parts of the community. This is to enhance the income level, asset acquisition, employment opportunities of the target groups by making them financially able to upgrade skills, education, and health, among others having a bearing effect on poverty reduction.

Outreach of Ethiopian microfinance institutions has been analyzed using secondary data and some sort of primary data collected from practitioners so as to strengthen the findings of the research. Secondary data are collected from Bulletins and AEMFI using predesigned survey questions based on which necessary analysis has been undertaken. Though the development of microfinance institutions is a recent phenomenon, the achievement is encouraging mainly in terms of client and portfolio outreach. The overall outreach of Ethiopian MFIs, defined as client and portfolio outreach, has been increasing quite fast during the years under review, going from 1,277,939 and 1,622,107,210 at 2005 to 2,444,254 and 6,158,995,072 at 2010 respectively (refer annex 1 and 2). The increment of active clients outreach lacks consistency and shows ups and downs over the years while loan portfolio has shown a steady growth for the years under review except in 2009 and 2010. Outreach in Ethiopia has shown tremendous growth over the period under

consideration. However, the growth of active borrowers falls far behind that of loan portfolio. The average yearly increment is over 14% for active borrowers and over 32% for loan portfolio while the overall increment is 91% and 280% over the years under consideration in that order. It can easily be deduced from the prevailing information that the growth of loan portfolio is by over 3 times that of active borrowers outreach. The number of borrowers has increased at relatively higher rate and followed by slower rate every other year and experienced least growth rate in 2010 when the number of active borrowers has come down by 2.2%. 20% of the practitioners (MFIs)<sup>1</sup> and Ethiopian microfinance network, AEMFI have been communicated where shortage of loan able fund cited as the critical challenge of Ethiopian MFIs. Inflationary situation and demand for better loan size in subsequent loan cycle can also challenge the number of client outreach and widen the rate of growth of active borrowers and loan portfolio. Inflation was 6.8% in 2005 and planned to keep at 8.1% by the year 2010 in the plan for Accelerated and Sustainable Development to End Poverty (MOFED 2006). However, it rose by many folds and reached 36.4% in 2009 though it has been declined by 2.8% and kept at 33.6% in 2010 (NBE 2011). MIS, line of credit line, regular capacity building program and unfair competition & uneven distribution of MFIs among regions are also cited as the major challenges of Ethiopian microfinance Industry (refer annex 21). Table 4.2.1a provides an overview of Ethiopian MFIs development in terms of active borrowers and loan portfolio.

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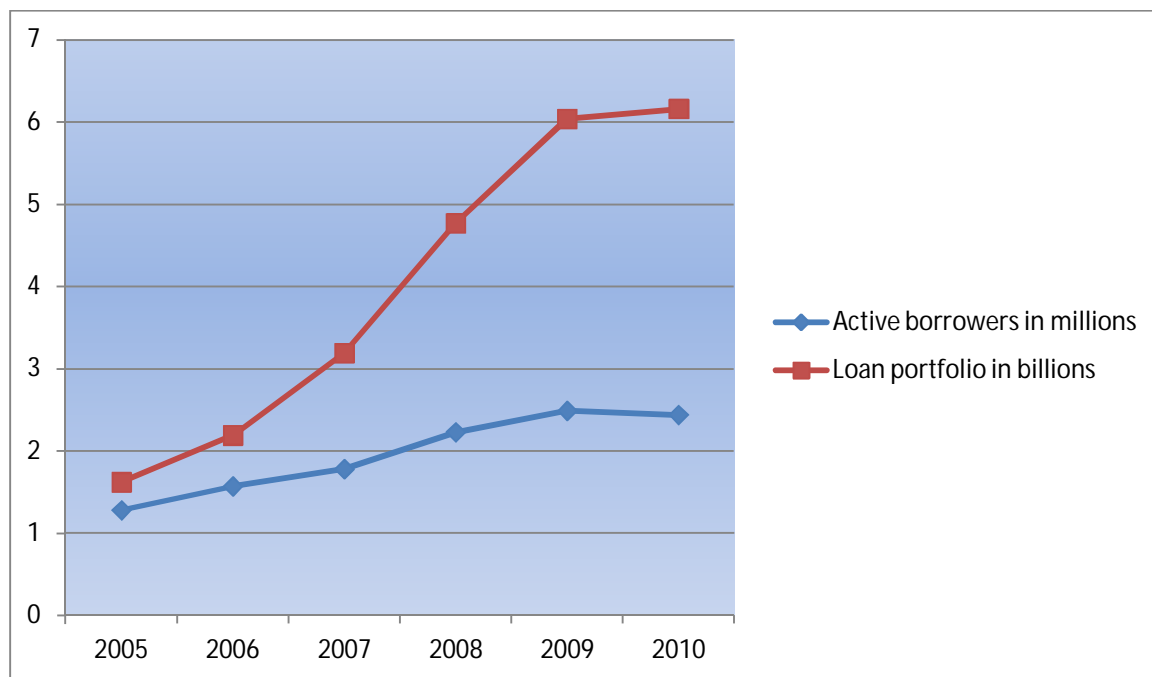
<sup>1</sup> MFIs contacted are 2 from big (Addis Credit & saving institution and OCSSCO) and 4 from others namely Eshet, Wasasa, SFPI and Aggar MFIs.

Table 4.2.1a Trend of analysis of growth rate of client and portfolio outreach

S/N			2005	2006	2007	2008	2009	2010
	Increment of							
1	borrowers	%		23	14	25	12	-2.2
	Increment of							
2	loan portfolio	%		35	46	50	27	2

Source: Researcher's own computation

Figure 4.2.1a Trends of active clients and loan portfolio



When compared to the Ethiopian MFIs average, the top four MFIs have enjoyed less growth rate in terms of loan portfolio and client outreach. The growth rate recorded over the years in view in terms of active borrowers and loan portfolio are 77% and 266% for top four and 91% and 280% for overall Ethiopian MFIs

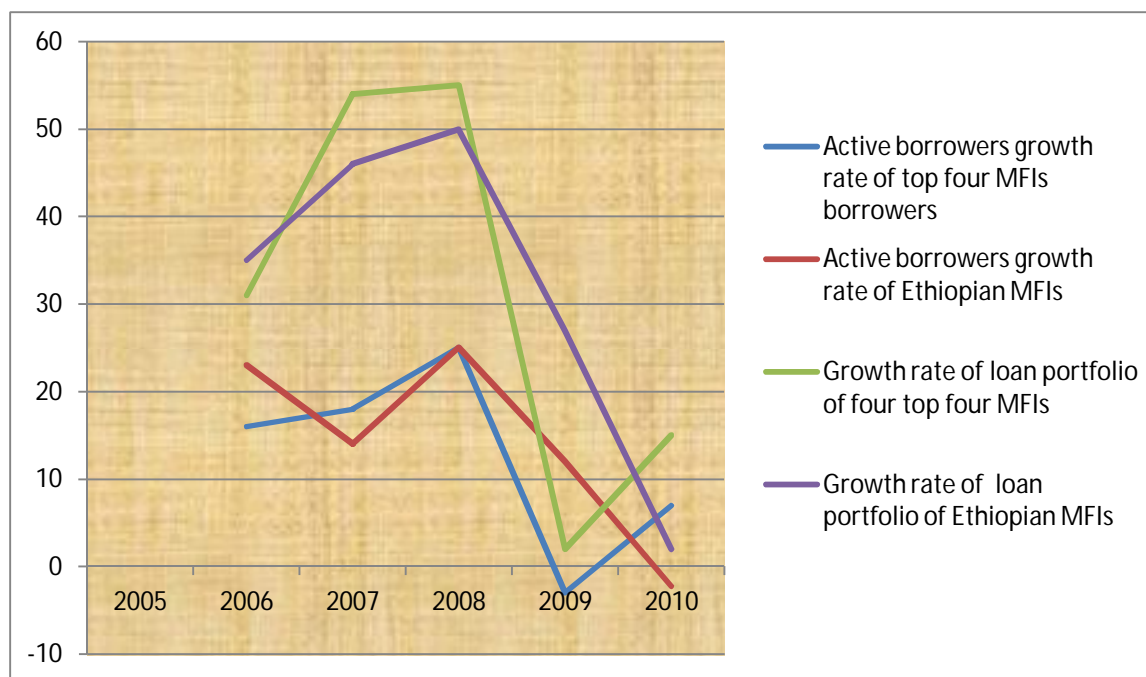
over the years under review. Ethiopian MFIs in general and top four MFIs in particular experienced significant decline in 2009 both in number of borrowers and loan portfolio (refer table 4.2.1b). It can be clearly noted from the table seen below that the Ethiopian MFIs other than top four MFIs are substantially recording higher growth rate except in 2010.

Table 4.2.1b Growth analysis of outreach

S/N	Particulars		unit	Growth rates over years						Overall growth
				2005	2006	2007	2008	2009	2010	
1	Growth rate in terms of active borrowers	Top four MFIs	%		16	18	25	-3	7	77
		Ethiopian MFIs	%		23	14	25	12	-2.2	91
2	Growth rate in terms of loan portfolio	Top four MFIs	%		31	54	55	2	15	266
		Ethiopian MFIs	%		35	46	50	27	2	280

Source: Researcher's own computation

Figure 4.2.1b Growth analysis of outreach



The Ethiopian economy is characterized by multifaceted features of poverty where the Government tried to design various strategies to fight poverty which necessitated the coming into picture of MFIs with the prime objective of poverty alleviation. As clearly seen under section 2.3, better off MFIs can avail credit in millions for an individual or for a group as per the regulation of NBE, however the actual average loan portfolio for top four and Ethiopian MFIs is almost the same which implies Ethiopian MFIs are established to address the marginalized sections of the society who have been excluded from such services for years. As the average loan balance roughly shows whom MFIs are addressing, the Ethiopian MFIs are consistently availing credit services to the poor who are demanding low loan size for their tiny business. The average of the four MFIs is almost the same with the Ethiopian average despite some

variations among the institutions as seen in table below where it is possible to see that the Ethiopian average maintained consistency.

Table 4.2.1c Depth of outreach of Ethiopian MFIs

S/N	Name of MFI	Average loan balance per borrower (in Birr)					
		2005	2006	2007	2008	2009	2010
1	ACSI	1,020	1,271	1,688	2,180	2,410	2,606
2	DECSI	1,621	1,864	2,545	3,123	3,333	3,651
3	OMO	824	898	1,144	1,966	1,559	1,634
4	OCSSCO	1,082	1,194	1,502	1,696	2,015	1,171
Average of top four MFIs		1,249	1,414	1,846	2,286	2,398	2,587
Average of Ethiopian MFIs		1,269	1,396	1,792	2,139	2,419	2,520

Source: Researcher's own computation

With the existing context of the country, the Ethiopian MFIs addressed the poor but the average loan balance per borrower per GNI per capita makes Ethiopian MFIs to be relatively poor performers in reaching the poorest of the poor. As it is evident from the table seen below, the average outstanding balance per GNI per capita of Ethiopian MFIs is much higher than the African

and international MFIs which imply that the African and all MFIs of the globe extend smaller loans than the Ethiopian MFIs. This indicates that based on the parameter of depth of outreach, Ethiopian MFIs are less performers in reaching the poorest as compared to African MFIs and MFIs of the globe. However, it has shown continued and significant improvement from year to year as seen in table below.

Table 4.2.1d Average loan balance per borrower/GNI per capita

S/N	Year	Ethiopian MFIs	Benchmark	
			African	All MFIs
1	2005	91	n/a	n/a
2	2006	87	58.6	33.8
3	2007	86	62.6	35.5
4	2008	75	70.3	33.6
5	2009	55	n/a	n/a
6	2010	39	n/a	n/a

Source: Researcher's own computation

#### **4.2.2 Saving performance**

Saving mobilization is a major element in their operational strategy and has become one of the most important sources of loan funds for MFIs. And hence, apart from client and portfolio outreach, Ethiopia's MFIs showed very strong growth during the years under review in terms of saving mobilization. The overall deposits collected range between birr 600,689,122 and 2,689,035,483. This represents a growth rate of over 347 per cent, which is much lower than the top four growth rate that is over 601 per cent. The top four and Ethiopian MFIs managed to cover 33% and 39% of loan portfolio by saving mobilization on average respectively over the years under review, which is the cheapest source of financing. To be specific, ACSI, DECSI, Omo and OCSSCO have financed 31% - 60%, 24% - 41%, 12% - 39% and 5% - 49% of loan portfolio from savings respectively. The Ethiopian average remained the same for four years and increased by 3% in year 2009 and by 4% in 2010 whereas the top four enjoyed significant growth over the years under consideration and managed to cover 48% of loan portfolio by the saving performance while Ethiopian MFIs' as a whole managed to increase from 37% in year 2005 to about 44% in 2010 (refer annex 12).

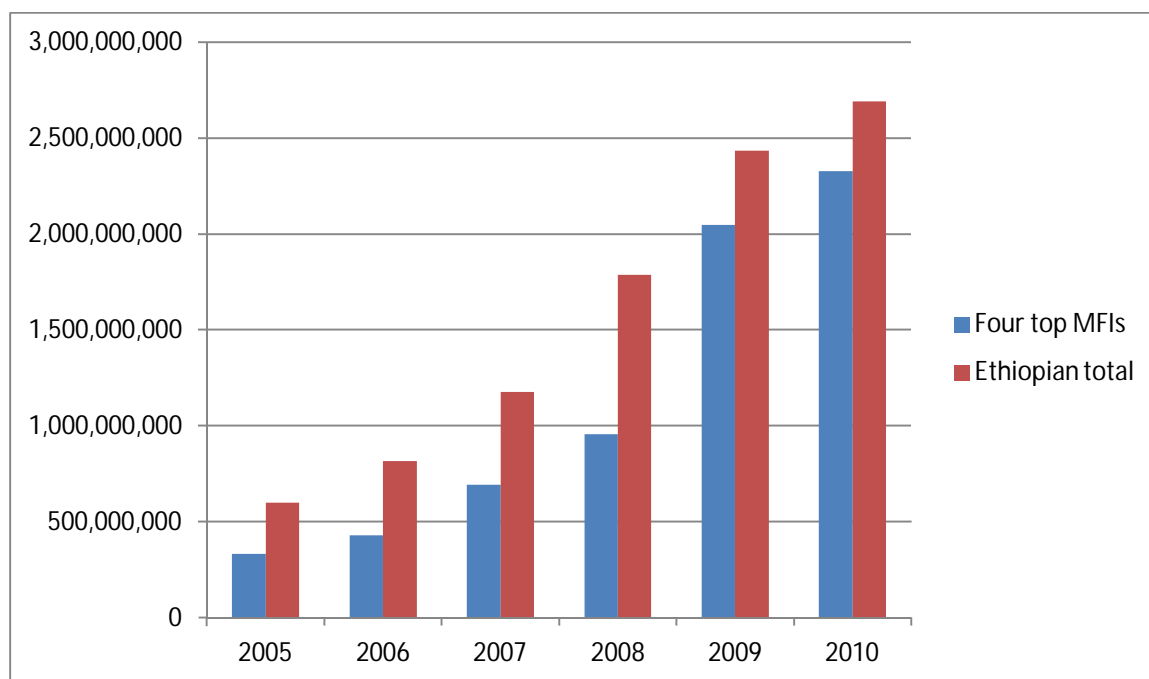


Table 4.2.2 Trend analysis of outstanding deposit

Particulars		Performances over years					
		2005	2006	2007	2008	2009	2010
Top four MFIs	Rate of growth		29.5	60.8	38.3	114.0	13.7
Ethiopian MFIs	Rate of growth		35.9	44.1	51.7	36.4	10.3
Share of top four (%)		55.3	52.6	58.8	53.6	84.0	86.5

Source: Researcher's own computation

Figure 4.2.2 saving outstanding of Ethiopian MFIs



### 4.2.3 Gender sensitivity

Microfinance is a proven technique for poverty alleviation. As noted under section 2.2, initially microfinance has been started in modern sense by Muhammad Yunus with a group of women arguing that that lending to women can be more effective at raising household income because the money is used for the benefit of the family when compared to their partners. Sixty percent of the world's poorest people are women and some 75 percent of the world's women cannot access credit from formal banks due to various reasons. That is why women comprise more than 50 percent of the world's population but own only one percent of the world's wealth (visit [www.undp.org/poverty/focus\\_gender.shtml](http://www.undp.org/poverty/focus_gender.shtml)).

Equality between men and women, which is fundamental human right, can also be ensured through access to financial services specially credit on top of others. The status of Ethiopian MFIs in general and top four MFIs in particular is seen below in comparison to industry standard at Africa level in terms of gender sensitivity. Almost two-thirds of women in the developing world work in the informal sector or as unpaid workers in the home where the importance of microfinance intervention has become significant (Ibid). This situation believed to be true in the case of Ethiopia where the large number of the community in general and women in particular fell under poverty whereby MFI services assumed to be one of the appropriate tools to tackle poverty.

With regard to gender sensitiveness, there is a clear difference between the first four MFIs and Ethiopian average on the one hand and among the first four on the other. There is no basic difference among Ethiopian MFIs in terms of objective. The only difference is kind of support Ethiopian MFIs are receiving from different sources where international NGO-supported MFIs are encouraged to focus on the marginalized segment of the community, women. This market previously considered to be invisible market. However, it is proved that this segment of the society is a profitable market that is why the outreach of female clients has been increasing from time to time as can be viewed from table seen below.

Table 4.2.3 Gender Sensitivity of Ethiopian MFIs (%)

Description	2005	2006	2007	2008	2009	2010
Average -Ethiopia	n/a	n/a	43	n/a	55	n/a
Average - Africa	n/a	n/a	60	n/a	60	n/a
ACSI	38.6	50	51	60	63	n/a
DECSI	22.8	18.6	38	25	38	n/a
Omo	30.7	29	44	33	32	n/a
OCSSCO	23.4	22.1	26	25	39	n/a
Average – top four	25	26	34	32	33	n/a

Source: Researcher's own computation

There are positive trends in gender sensitivity as can be observed from table 4.2.3 seen above though the degree varies and Ethiopia continued to perform below the African Average. The Ethiopian MFIs are non gender sensitive by the year 2007 and has become gender sensitive by the year 2009 and reached 55% but still remained below the African average. Gender sensitivity of Ethiopian MFIs has been increased by 12% between two years while it has only increased by 8% within five years in the case of average top four Ethiopian MFIs where one can see 25% in 2005 and 33% in 2009. There is also significant difference among these best performing MFIs that vary between 22.8% & 38.9% in 2005 and 32% & 63% in 2009 which shows margin of 16.1% in 2005 and 31% in 2009. The top four MFIs, taking the lion's share of outreach, are performing well below the average of Ethiopian MFIs in terms of female client coverage which clearly shows that other MFIs are well addressing the marginalized segment of society, women that keep the average performance of Ethiopian MFIs well above the average of top four.

#### **4.2.4 Profitability**

Sustainability of any institution largely depends on the profitability of its business and every institution works towards this direction for better outreach in alleviating poverty. The two commonly used indicators for profitability analysis are ROA and ROE discussed here below one after the other where sustainability and profitability of Ethiopian MFIs in general and that of top four found to be quite good specially during the latter years. Though the Ethiopian

average experienced negative value in 2007, it managed to improve over the course and reached positive value improving over 118% within two years.

Table 4.2.4a Trend analysis of ROA

Description	2005	2006	2007	2008	2009	2010 <sup>2</sup>
ACSI	4.3	4.5	4.1	8	6	8.7
DECSI	3.4	1.9	-3	2	3	2.6
Omo	-2	-0.5	-1.3	2	2	6.1
OCSSCO	1.1	0.4	0.7	4	3	11.3
Ethiopian						
Average	n/a	n/a	-6	n/a	0.2	1.1
African						
Average	n/a	n/a	-1	n/a	0.2	n/a

Source: AEMFI Bulletins 5, 7 and paper presented at the 5<sup>th</sup> African microfinance conference by Dr. Wolday, AEMFI CEO.

From the above table it can be concluded that the first four MFIs in particular are doing well above the African average. The performance of top four MFIs is also quite above the Ethiopian average and had been experiencing significant improvement over the period under review though there were significant variation among MFIs. The Ethiopian MFIs has recorded remarkable

<sup>2</sup> ROA of top four (unadjusted due to necessary data constraint) is computed by the researcher.

improvement over the period (-6 in 2007 improved and reached 1.1 in 2010). It can also be stated from the given information that the average performance of the remaining Ethiopian MFIs kept far below the first four MFIs as seen in the table above. As can be viewed from table **4.2.4a**, the minimum and maximum performance of ROA of four top performing MFIs are 10 and 30 times the Ethiopian average respectively in 2009. This clearly shows that how well the assets of these MFIs managed as compared to the Ethiopian average and African average. This can be manifested by higher portfolio asset ratio as there is positive correlation between ROA and portfolio asset ratio (table 4.2.4C). The other aspect of profitability is Return on Equity (ROE) discussed here under.

Table 4.2.4b Trend analysis of ROE

Description	2005	2006	2007	2008	2009	2010 <sup>3</sup>
ACSI	13.2	14.6	14.5	25	24	30.1
DECSI	12.6	8.5	-1.6	10	8	10.3
Omo	-17.9	-4.9	-11	23	17	20.1
OCSSCO	2.1	0.9	2	17	14	38.5
Ethiopian						
Average	n/a	n/a	-11	n/a	3.4	n/a
African						
Average	n/a	n/a	-3	n/a	2.3	n/a

Source: AEMFI Bulletins 5, 7 and researcher's own computation

<sup>3</sup> Unadjusted ROE computed by the researcher

ROE, showing the return on investment, had shown remarkable improvement over the years under consideration for both Ethiopian MFIs and top four MFIs. The four top and Ethiopian MFIs have achieved a positive return passing the break-even point in 2008 and 2009 respectively. There was significant variation even between best performing MFIs that ranges between -17.9 and 13.2 in 2005 and 8 and 24 in 2009. The margin between best performing and poor performing had been bridged from 31.1 in 2005 to 16 in 2009. Of four MFIs under consideration, three of them managed to record positive figures during the whole years except DECSI in 2007 while all joined the remaining commencing 2008. The performance of first four MFIs were far above the Ethiopian and African average. The performance of Ethiopian MFIs which was far below the African average in 2007 has shown encouraging performance and recorded above the African average in 2009. All first four MFIs have achieved a positive return both on equity and on assets that makes the performances of Ethiopian MFIs also positive.

Table 4.2.4C Trend Analysis of portfolio asset ratio (%)

Description	2005	2006	2007	2008	2009	2010
ACSI	74.8	80.9	79.0	78.7	70.9	69.7
DECSI	75.3	70.3	68.3	78.5	65.2	70.7
Omo	57.2	74.5	72.4	89.4	90.5	84.9
OCSSCO	73.8	84.6	77.8	89.9	81.5	75.4
Ethiopian						
Average	n/a	n/a	75.7	n/a	89.4	77.4
African						
Average	n/a	n/a	63	n/a	63	n/a

Source: Researcher's own computation

The Ethiopian MFIs were performing well above the African average in allocating resources for productive purpose. This ratio shows how well an MFI allocates its assets to its primary business that is making loans and providing other financial services to the needy. The ratio has been kept above and beyond the African average where 63% of asset had been allotted for loan portfolio which confirmed less asset productivity when compared to big MFIs and Ethiopian MFIs.



#### **4.2.5 Efficiency and Productivity**

Efficiency and productivity indicators, showing the level of MFI's resources management mainly assets and personnel, have been analyzed in detail. Operating expense ratio and cost per borrower have been used for efficiency analysis while active clients per credit/loan officer are employed for productivity analysis as they are usually directly involved in revenue-generating tasks i.e. making and collecting loans.

##### **Efficiency**

Operating expense ratio and cost per borrower have been taken to measure the efficiency of Ethiopian MFIs. The lower the ratio, the efficient the institution is in resource management. As can be noted from table **4.2.5a**, the Ethiopian MFIs in general and top four in particular were doing well over the years under review. The cost effectiveness of Ethiopian MFIs were far better than the African average and the top four MFIs has shown significant improvement when comparing year 2005 and 2009 except DECSI, that increased by 0.2%.

Compared to others, Omo MFI recorded significant improvement over the years under review. It had steadily improved its efficiency by over 80% between 2005 and 2009, which is remarkable achievement. DECSI, ASCI and OCSSCO stood 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> in cost effectiveness respectively. The efficiency of first four MFIs was well above the Ethiopian average which clearly shows that the average performance of the rest MFIs was far below top four best performing institutions. Other things being constant, these MFIs have better opportunity

to have better outreach using economies of scale, among others. The efficiency (expressed in terms of operating expense ratio) of four MFIs under review had been increased by about 48% and 37% between 2005 & 2009 and 2007 & 2009 respectively where the Ethiopian average has increased by over 28% between 2007 and 2010 which shows that the increment in efficiency of the rest MFIs are far lagging behind the top four MFIs under analysis. However, Ethiopian MFIs has shown better improvement over African average.

Table 4.2.5a Operating Expense ratio (%)

Description	2005	2006	2007	2008	2009	2010 <sup>4</sup>
ACSI	6.2	5	4.6	3	4	1.94
DECSI	2.8	2.5	2.9	3	3	1.67
Omo	10.3	8.3	8.6	4	2	4.91
OCSSCO	7.5	6.4	6	4	5	4.74
Top four average	6.7	5.6	5.5	3.5	3.5	3.32
Ethiopian Average	n/a	n/a	14	n/a	11	10
African Average	n/a	n/a	32	n/a	30	n/a

Source: AEMFI Bulletins 5, 7 and paper presented at the 5<sup>th</sup> African microfinance conference by Dr. Wolday, AEMFI CEO.

<sup>4</sup> Operating expense ratio of top four and top four average (unadjusted due to necessary data constraint) is computed by the researcher

The other efficiency indicator, cost per borrower, how much institutions are expending in personnel and administrative expenses in availing credit service to a single borrower. In other words, it shows how much the institution must earn from each borrower to run the business in a healthy manner. The cost per borrower has also been analyzed to throw light on the performance of Ethiopian MFIs in general and large MFIs under review in particular taking into account country and African average.

Ethiopian MFIs had also shown remarkable performance when compared to African average from cost per borrower point of view. Though cost per borrower had been increased steadily for top four MFIs over years under review (except for DECSI in 2009), the efficiency of these institutions were well better than Ethiopian and African average. The Ethiopian average which was below African average in 2007 has significantly improved well above the African average in 2009. The cost per borrower of Ethiopian MFIs which was 134% of African average in 2007 has been improved tremendously and reached 82% of that of African average in 2009. When compared to each MFI under consideration, the Ethiopian average was 232%, 237%, 586% and 197% of ASCI, DECSI, Omo and OCSSCO respectively in 2009. This again apparently shows that the cost effectiveness of these four MFIs was quite better than the average of the rest Ethiopian MFIs. With regard to top four MFIs, the situation is far better than the Ethiopian and African average where the average cost spent to serve a single borrower ranges between birr 60 and 81. This might be due to

economics of scale and/or learning effect that can enhance the efficiency of these institutions.

Table 4.2.5b Cost per borrower

Description	2005	2006	2007	2008	2009	2010 <sup>5</sup>
ACSI	59	58	69	73	91	50
DECSI	39	44	69	78	89	61
Omo	64	72	89	87	36	80
OCSSCO	79	73	83	71	107	108
Ethiopian	n/a	n/a	153	n/a	211	177
Average						
African	n/a	n/a	114	n/a	256	n/a
Average						

Source: AEMFI Bulletins 5, 7 and paper presented at the 5<sup>th</sup> African microfinance conference by Dr. Wolday, AEMFI CEO.

<sup>5</sup> Cost per borrower of top four and top four average (unadjusted due to necessary data constraint) is computed by the researcher

## Productivity

The staff productivity (caseload per loan officer) of Ethiopian MFIs was well above the African benchmark on the one hand and the average of top four is quite above the Ethiopian average on the other. The Ethiopian and African average has declined from 541 and 241 in 2007 to 398 and 235 respectively in 2009 while the average of the first four has increased to 557 in 2009 from 491 in 2007 which shows the productivity of big MFIs is well above the Ethiopian average. Accordingly, one can conclude from the aforesaid statement and information seen in table 4.2.5c, the average caseload of the remaining Ethiopian MFIs had experienced a steady decline in productivity except in 2010 where some 6% increment has been recorded as compared to 2009.

Table 4.2.5c Productivity of Ethiopian MFIs /active borrowers per loan officer

Description	2005	2006	2007	2008	2009	2010 <sup>6</sup>
ACSI	360	370	386	404	370	351
DECSI	957	616	711	1012	836	765
Omo	336	314	443	374	488	541
OCSSCO	320	380	422	593	536	672
Top four average <sup>7</sup>	493	420	491	596	557	582
Ethiopian Average	n/a	n/a	541	n/a	398	423
African Average	n/a	n/a	241	n/a	235	n/a

Source: AEMFI Bulletin 5 and 7

<sup>6</sup> Researcher's own computation

<sup>7</sup> Researcher's own computation

One can easily note from the table seen above that the productivity of Ethiopian MFIs in general and that of top four MFIs in particular is by far better than African average.

#### **4.2.6 Portfolio Quality**

The loan portfolio quality of Ethiopian MFIs has been worsened during the last two years while it has been kept at quite low levels from 2005 to 2007. The Ethiopian average in 2007 was in a better position when compared to African average but got worsened in 2009 where African average is less by 1%. The four top MFIs average has increased by over 93% in 2009 as compared to year 2008 performance while ACSI, DECSI, Omo and OCSSCO experienced 100%, 150%, 40% and 133% increment respectively that is deterioration of portfolio as compared to year 2008. The Ethiopian average has also increased by 100% during the last two years except in 2010 where very slight improvement has been recorded. This shows that though the average of top four is by far better than the Ethiopian average, the portfolio quality of these MFIs has been greatly affected from year to year. Generally, the performance of the first four MFIs is quite better than Ethiopian and African average which in turn shows that the average of other Ethiopian MFIs is far below the top four MFIs under review.

Table 4.2.6 Portfolio quality trend analysis

Description	2005	2006	2007	2008	2009	2010
ACSI	1.1	0.8	0.5	2	4	n/a
DECSI	n/a	n/a	0.5	2	5	n/a
Omo	1.2	2.9	2	5	7	n/a
OCSSCO	5.3	0.2	n/a	3	7	n/a
Four top average <sup>8</sup>	n/a	n/a	n/a	3	5.8	n/a
Ethiopian Average	n/a	n/a	4	n/a	8	7
African Average	n/a	n/a	5	n/a	7	n/a

Source: AEMFI Bulletins 5, 7 and paper presented at the 5<sup>th</sup> African microfinance conference by Dr. Wolday, AEMFI CEO.

#### 4.2.7 Debt to equity ratio/leverage/

Debt/Equity ratio, measuring MFI's capital adequacy and institution's ability to absorb losses without falling at risk, has been analyzed for Ethiopian MFIs. Microfinance institutions finance their activities with funds from debt and equity. The debt of MFIs is mainly from two sources namely commercial sources and saving mobilization. Institutions should strive to get low cost fund coming from deposits and/or accessing concessional loan.

<sup>8</sup> Researcher's own computation

The debt to equity ratio of ACSI and OCSSCO has been increased over the years under consideration while DECSI and Omo enjoyed higher ratio during the period under review except in 2009 where DECSI recorded below the top four, Ethiopian and African averages. The average debt to equity ratio of the first four is much higher than Ethiopian and African averages which implies that the average of the rest Ethiopian MFIs far below the Ethiopian average and first four MFIs. From this it can be possible to conclude that these top four MFIs have better access to funds be it commercial and/or saving. By the same token, the overall Ethiopian average shows that the African MFIs have better access to commercial sources and/or mobilized relatively huge saving as it is apparently seen in table **4.2.7** where African enjoyed over 33% above and beyond the Ethiopian average.

In other words, the average seen in table **4.2.7** shows that the first four is over indebted as compared to Ethiopian and African averages. The debt of ACSI, DECSI, Omo and OCSSCO is 2.8, 2.6, 9.4 and 3.1 times their respective equity respectively. The debt to equity ratio of Omo MFI is 3.4, 3.6, 3, 5.2 and 3.9 times ASCSI, DECSI, OCSSCO, Ethiopian and African average respectively by the year 2009. Generally, large MFIs under review enjoyed the highest average debt in proportion to their equity while Ethiopia as a whole experienced less as compared to African average.



Table 4.2.7 leverage analysis

Description	2005	2006	2007	2008	2009	2010 <sup>9</sup>
ACSI	2.1	2.3	2.7	2.2	2.8	2.6
DECSI	3.3	3.7	3.9	4	1.6	3.1
Omo	9.9	9.1	7.1	11.5	9.4	2.7
OCSSCO	0.9	1,3	2.5	3.5	3.1	3.0
Four top average <sup>10</sup>	4.1	3.8	4.1	5.3	4.2	2.8
Ethiopian Average	n/a	n/a	2.1	n/a	1.8	2.1
African Average	n/a	n/a	2.7	n/a	2.4	n/a

Source: AEMFI Bulletins 5, 7 and paper presented at the 5<sup>th</sup> African microfinance conference by Dr. Wolday, AEMFI CEO.

One can also deduct from table **4.2.7** that there is shortage of readily available funds from commercial sources that could fuel more rapid growth and help provide financial services as compared to that of Africans. 100% of surveyed MFIs cited shortage of loan able fund as one of the top challenges of Ethiopian MFI industry where 50% of them mentioned reluctance of commercial bank to lend to MFIs as one reason impeding access to commercial sources .

<sup>9</sup> Researcher's own computation but unadjusted

<sup>10</sup> Researcher's own computation but unadjusted

## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATIONS

#### 5.1 CONCLUSION

Microfinance is considered to be an effective and powerful tool for poverty alleviation like many other development tools. Relative to the experience of other developing countries, microfinance development in its institutionalized form is a recent phenomenon in Ethiopia. It dates back to late 1990s following proclamation 40/1996 issued for licensing and supervision of activities of the industry.

Ethiopian microfinance industry is booming as it has shown very strong growth in terms of outreach and other performance indicators over the six years under review ranging from 2005 to 2010. Substantially higher growth was recorded by the largest four MFIs as compared to Ethiopian MFIs as a whole almost in all aspects making use of economies of scale, among others. Big MFIs are in a better position to exploit the unmet demand making use of economies of scale. Overall loan portfolio, active borrowers and deposits collected by Ethiopian MFIs rose by significant figures over the years in question though the rate of growth differs. However, the rate of growth of active clients and loan portfolio started declining steadily during the last three years while rate of growth of deposit has also started declining during the last two years. As that of active clients and loan portfolio, four top MFIs in question took the lion's share of overall saving performance of

Ethiopian MFIs.

Despite significant outreach achievement over the years under review, a lot remains to be done in reaching the needy strata of society as the whole Ethiopian MFIs managed to serve only less than 20% of the existing demand for financial services. This indicates that there is a significant unmet demand for microfinance services in Ethiopia. The research also clearly identified the relative dominance of the largest four MFIs in the industry as a whole and uneven distribution of Ethiopian MFIs. Though the share of top four MFIs faced an incidence of decline while others experienced a sort of improvement, there is still disturbing difference among institutions. The loan balance per borrower /GNI per capita of Ethiopian MFIs doesn't put Ethiopian MFIs in a better position in reaching the poorer as compared to African MFIs and MFIs of the globe. Meaning the Ethiopian MFIs are poor performers as they extend larger loans than the MBB benchmark where the parameter makes Ethiopian MFIs poor performers as they are not reaching the poorest of the poor in relative terms.

The microfinance industry in Ethiopia has also shown a remarkable performance in terms of profitability, efficiency and productivity indicators when compared to African industry standard. The Ethiopian MFIs in general and largest MFIs in particular have high ROE as compared to MBB benchmark but the Ethiopian MFIs have well below ROA as compared to MBB benchmark while that of the largest four performed far above the benchmark. The trend in performance showed that large MFIs were successful from efficiency point of view, even though

the rate fluctuates year after year. With regard to portfolio asset ratio, for large MFIs on average there is a steady progress in portfolio to asset ratio as compared to Ethiopian industry standard. From this one can roughly understand that the size of MFI affects efficiency and productivity positively as it can make use of economies of scale. Productivity of loan officers has increased over the years under review as institutions became more efficient as time passes. There was also a decrease in cost of serving a single borrower over periods. The cost has been kept much below the African average. Debt to equity ratio of Ethiopian MFIs shows that there is less access to commercial sources as compared to that of African MFIs.

Growth in the sector in terms of female client outreach recorded over the years under review is encouraging but still falls behind the African average. With regard to gender sensitiveness, there is a clear difference between the first four MFIs, Ethiopian and African average on the one hand and among the first four on the other. Meaning the Ethiopian MFIs are less gender sensitive as compared to African average while the top four are far less gender sensitive when compared to Ethiopian and African average.

The Ethiopian MFIs in general and the first four in particular faced heavy portfolio at risk by the year 2009 when the Ethiopian MFIs started recording above the African average. It is well known fact that enhancing portfolio quality will also go a long way towards maintaining revenues thereby ensuring sustainability of the industry to fight poverty.

## 5.2 RCOMMENDATIONS

Ethiopian MFIs are performing well in terms of outreach and in almost other performance indicators during the years under review though the rate of growth of outreach begins to decline during the last three years. And the following points should get top attention so as to improve market structure and performances of Ethiopian microfinance industry further meeting social and sustainability mission in order to play its pivotal role in poverty alleviation.

- The main objective of almost all microfinance institutions in Ethiopia is to deliver financial services to the poor who have been out of the orbit of formal financial services. So, policy makers are required to focus on how to motivate all MFIs operating in Ethiopia so as to address unmet demand estimated to be over 80% by solving the market structure and distribution of MFIs. This could be in terms of need based regular training facilities, availing line of credit and equal attention from all stakeholders at all levels. Some other incentive mechanisms should also be investigated to attract MFIs to unreached regions in order to bridge the supply of and demand for financial services. Within the currently reached areas, the rate of growth of active borrowers is lagging far behind the growth rate of loan portfolio which has to attract the attention of policy makers and practitioners as well.
- As sources suggest that women are the marginalized section of society and the outreach of the period under review is below African average, Ethiopian MFIs in general and the largest MFIs in particular should be gender sensitive in

order to meet their objective that is poverty alleviation.

- The Ethiopian MFIs should focus on the poorest of the poor, as the loan balance per borrower /GNI per capita of Ethiopian MFIs, shows Ethiopian MFIs are poor performers as they extend larger loans than the MBB benchmark.
- The loan portfolio quality required to get due attention as it started to reduce in 2009 and has gone below the African average.

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## ANNEXES

### Annex 1 Active borrower outreach for the year 2005 - 2010

S/N	Name of MFI	Active client outreach					
		2005	2006	2007	2008	2009	2010
1	ACSI	434,814	536,804	597,723	710,576	687,586	677,331
2	DECSI	419,052	392,693	423,830	464,622	407,780	414,041
3	OMO	82,400	115,999	156,975	212,986	296,638	328,888
4	OCSSCO	125,782	181,403	263,971	414,823	364,584	458,762
Total top four MFIs		1,114,868	1,281,819	1,533,999	1,890,187	1,908,848	1,879,022
Total Ethiopian MFIs		1,277,939	1,568,572	1,780,363	2,229,984	2,499,233	2,444,254

Source: AEMFI Bulletins and collected from AEMFI through survey questions

Annex 2 Loan Portfolio of Ethiopian MFIs for the year 2005 - 2010

S/N	Name of MFI	Loan portfolio outreach over years					
		2005	2006	2007	2008	2009	2010
1	ACSI	443,332,030	682,276,025	1,008,800,901	1,548,902,150	1,656,863,562	1,765,373,544
2	DECSI	679,449,729	731,974,958	1,078,612,652	1,450,973,195	1,359,117,217	1,511,845,613
3	OMO	67,882,984	104,116,908	179,654,227	418,684,029	462,403,284	537,342,406
4	OCSSCO	136,073,280	216,589,246	396,423,389	703,366,490	734,540,219	1,046,979,300
Total top four MFIs		1,441,807,712	1,855,399,111	2,834,990,131	4,365,855,856	4,534,122,101	4,861,540,863
Total Ethiopian MFIs		1,622,107,210	2,190,158,748	3,189,521,117	4,770,087,410	6,044,913,314	6,158,995,072

Source: AEMFI Bulletins and collected from AEMFI through survey questions

Annex 3 Asset of Ethiopian MFIs

S/N	Name of MFI	Total Asset					
		2005	2006	2007	2008	2009	2010
1	ACSI	592,637,998	843,074,785	1,277,164,308	1,968,580,729	2,338,007,889	2,533,220,850
2	DECSI	901,876,086	1,041,368,527	1,578,124,026	1,849,157,100	2,083,341,702	2,137,258,700
3	OMO	118,687,804	139,788,191	248,169,445	468,089,124	511,045,896	633,155,638
4	OCSSCO	184,494,994	256,148,096	509,269,220	782,424,506	901,144,034	1,388,149,791
Total of the top five MFIs		1,797,696,882	2,280,379,599	3,612,726,999	5,068,251,459	5,833,539,521	6,691,784,791
Total of the Ethiopian MFIs		n/a	n/a	4,236,963,373	n/a	6,763,063,548	7,958,194,000

Source: AEMFI Bulletins and collected from AEMFI through survey questions

#### Annex 4 Capital of Ethiopian MFIs

S/N	Name of MFI	Total Capital					
		2005	2006	2007	2008	2009	2010
1	ACSI	192,014,711	252,922,436	344,834,363	610,260,026	607,882,051	704,452,842
2	DECSI	210,137,128	220,770,128	320,359,177	351,339,849	791,669,847	522,392,541
3	OMO	10,919,278	13,839,031	30,524,842	42,128,021	51,104,590	173,091,772
4	OCSSCO	94,645,932	112,192,866	145,650,997	172,133,391	225,286,009	335,604,810
Total of the top five MFIs		507,717,049	599,724,460	841,369,379	1,175,861,287	1,675,942,496	1,735,541,965
Total of the Ethiopian MFIs		n/a	n/a	1,694,785,349	n/a	3,043,378,597	n/a

Source: AEMFI Bulletins and collected from AEMFI through survey questions



Annex 5 Saving outstanding of Ethiopian MFIs from year 2005 – 2010

No	Name of MFI	Outstanding saving					
		2005	2006	2007	2008	2009	2010
1	ACSI	144,526,242	219,010,604	353,080,315	480,159,667	994,118,137	1,052,114,820
2	DECSI	160,350,136	172,014,115	267,495,938	348,233,567	530,055,715	627,389,573
3	OMO	18,464,172	27,174,512	43,835,631	50,242,083	161,841,149	211,721,541
4	OCSSCO	8,572,617	11,695,819	26,956,790	77,370,314	359,924,707	435,587,344
Total top four MFIs		331,913,166	429,895,051	691,368,675	956,005,631	2,045,939,709	2,326,813,278
Total Ethiopian MFIs		600,689,122	816,612,182	1,176,400,403	1,785,160,789	2,434,987,703	2,689,035,483

Source: AEMFI Bulletins and collected from AEMFI through survey questions

Annex 6 Trend analysis of saving to loan portfolio ratio (%)

No	Name of MFI	Performances over years					
		2005	2006	2007	2008	2009	2010
1	ACSI	33	32	35	31	60	60
2	DECSI	24	24	25	24	39	41
3	OMO	27	26	24	12	35	39
4	OCSSCO	6	5	7	11	49	42
Total top four MFIs		25	25	26	23	49	48
Total Ethiopian MFIs		37	37	37	37	40	44

Source: AEMFI Bulletins and collected from AEMFI through survey questions

Annex 7 Ethiopian GNI per capita over five years (in US Dollar)

S/N	Year	Amount
1	2005	160
2	2006	190
3	2007	230
4	2008	290
5	2009	350
6	2010	390

Source: [www.indexmundi.com](http://www.indexmundi.com)

Annex 8 Exchange rate of 1 US Dollar in terms of Ethiopian Birr

S/N	Year	Amount
1	2005	8.68
2	2006	8.44
3	2007	9.04
4	2008	9.85
5	2009	12.54
6	2010	16.42

Source: [www.gocurrency.com/v2/historic-exchange-rates.php](http://www.gocurrency.com/v2/historic-exchange-rates.php)

Annex 9 Average outstanding balances of Ethiopian MFIs

(in US Dollar)

S/N	Year	Amount
1	2005	146
2	2006	165
3	2007	198
4	2008	217
5	2009	193
6	2010	110

Source: computed by the researcher

Annex 10 Average outstanding balance /GNI per capita (%)

S/N	Year	All African	All MFIs
1	2005	n/a	n/a
2	2006	58.6	33.8
3	2007	62.6	35.5
4	2008	70.3	33.6
5	2009	n/a	n/a

Source: www.themix.org

Annex 11 Profitability MBB benchmark

Year	ROA	ROE
2005	n/a	n/a
2006	1.8	7.6
2007	1.2	5.9
2008	0.4	2.9
2009	n/a	n/a
2010	n/a	n/a

Source: [www.themix.org](http://www.themix.org)

Annex 12. General information for ROA and ROE Calculation

MFI	Total Asset		Average	Equity	Income	Expense	Net income
	2009	2010		2010	2010		
ACSI	2,338,007,889	2,533,220,850	2,435,614,370	704,452,842.00	246,523,157	34,192,210	212,330,947
DECSI	2,083,341,702	2,137,258,700	2,110,300,201	522,392,541.00	79,228,154	25,292,342	53,935,812
OMO	511,045,896	633,155,638	572,100,767	173,091,772.00	61,241,856	26,409,306	34,832,550
OCSSCO	901,144,034	1,388,149,603	1,144,646,819	335,604,810.00	178,951,518	49,582,326	129,369,192

Source: AEMFI

Annex 13 Unadjusted ROA, ROE and operating expense ratio for the year 2010

MFI	ROA = Net income/average Asset	ROE = Net income/Equity	Operating exp ratio = Expense/gross loan portfolio
ACSI	8.7	30.1	1.94
DECSI	2.6	10.3	1.67
OMO	6.1	20.1	4.91
OCSSCO	11.3	38.5	4.74

Source: Researcher's own computation

Annex 14 Year 2010 General information

S/N	MFI	Total Asset	Number of loan officer	Total Equity	Total Liability	Total saving	Total income	Operating expense	Active borrowers
1	ACSI	2,533,220,850	1927	704,452,842.00	1,828,768,008	1,052,114,820	246,523,157	34,192,210	677,331
2	DECSI	2,137,258,700	541	522,392,541.00	1,634,866,159	627,389,573	79,228,154	25,292,342	414,041
4	OMO	633,155,638	608	173,091,772.00	460,063,866	211,721,541	61,241,856	26,409,306	328,888
5	OCSSCO	1,388,149,603	683	335,604,810.00	1,052,544,793	435,587,344	178,951,518	49,582,326	458,762
Total Ethiopian MFIs		7,958,194,000	n/a	n/a	n/a	2,689,035,483	n/a	n/a	2,444,254

Source: AEMFI

Annex 15 Peer Group -Small MFIs' outreach of 2007

S/N	Name of MFI	Number of active borrowers	Loan portfolio	Market share of active borrowers	Market share of loan portfolio
1	SEYAMFI	2,169	2,574,409	0.12	0.08
2	Aggar	1,998	3,229,385	0.11	0.10
3	Harbu	10,059	5,778,625	0.56	0.18
4	Metemamen	10,638	5,960,025	0.60	0.19
5	AVFS	9,016	9,204,505	0.51	0.29
6	Meklit	11,311	14,156,296	0.64	0.44
Total		11,953	13,185,831	2.54	1.28
Average		1,992	2,197,639	0.42	0.21

Source: Researcher's own computation based on data summarized from AEMFI Bulletin



Annex 16 Peer Group -Small MFIs' outreach of 2009

S/N	Name of MFI	Number of active borrowers	Loan portfolio	Market share of active borrowers	Market share of loan portfolio
1	Degaf	1,249	1,224,132	0.05	0.02
2	Letta	434	3,529,387	0.02	0.06
3	Meket	3,356	3,320,865	0.13	0.05
4	Shashamene	2,800	9,439,225	0.11	0.16
5	Lefayida	211	455,244	0.01	0.01
6	Dynamic	319	1,972,899	0.01	0.03
Total		8,369	19,941,752	0.33	0.33
Average		1,395	3,323,625	0.06	0.05

Source: Researcher's own computation based on data summarized from AEMFI Bulletin

Annex 17 Peer Group -Medium MFIs' outreach of 2007

S/N	Name of MFI	Number of active borrowers	Loan portfolio	Market share of active borrowers	Market share of loan portfolio
1	Busa	31,150	19,830,265	1.75	0.62
2	Sidama	32,867	20,859,792	1.85	0.65
3	Benshangul	23,609	22,685,815	1.33	0.71
4	SFPI	23,462	26,338,262	1.32	0.83
5	PEACE	19,471	31,987,816	1.09	1.00
6	Eshet	27,742	31,674,672	1.56	0.99
Total		158,301	153,376,622	8.89	4.81
Average		26,384	25,562,770	1.48	0.80

Source: Researcher's own computation based on data summarized from

AEMFI Bulletin

Annex 18 Peer Group -Medium MFIs' outreach of 2009

S/N	Name of MFI	Number of active borrowers	Loan portfolio	Market share of active borrowers	Market share of loan portfolio
1	Agar	3,707	10,543,554	0.15	0.17
2	AVFS	11,306	11,215,745	0.45	0.19
3	Gasha	12,851	14,503,934	0.51	0.24
4	Harbu	12,541	11,362,231	0.50	0.19
5	Meklit	12,980	20,659,910	0.52	0.34
6	Metemamen	14,154	10,157,104	0.57	0.17
Total		67,539	78,442,478	2.70	1.30
Average		11,257	13,073,746	0.45	0.22

Source: Researcher's own computation based on data summarized from

AEMFI Bulletin

Annex 19 Peer Group -Large MFIs' outreach of 2007

S/N	Name of MFI	Number of active borrowers	Loan portfolio	Market share of active borrowers	Market share of loan portfolio
1	ACSI	597,723	1,008,800,901	33.57	31.63
2	DECSI	423,830	1,078,612,652	23.81	33.82
3	OCSSCO	263,971	396,423,389	14.83	12.43
4	Omo	156,975	179,654,227	8.82	5.63
5	ADCSI	91,500	171,498,962	5.14	5.38
6	Wisdom	48,168	60,175,252	2.71	1.89
Total		1,582,167	2,895,165,383	88.87	90.77
Average		263,695	482,527,564	14.81	15.13

Source: Researcher's own computation based on data summarized from

AEMFI Bulletin

Annex 20 Peer Group -Large MFIs' outreach of 2009

S/N	Name of MFI	Number of active borrowers	Loan portfolio	Market share of active borrowers	Market share of loan portfolio
1	ACSI	687,586	1,656,863,562	27.51	27.41
2	DECSI	407,780	1,359,117,217	16.32	22.48
3	OCSSCO	364,584	734,540,219	14.59	12.15
4	Omo	296,638	462,403,284	11.87	7.65
5	ADCSI	152,260	321,197,819	6.09	5.31
6	Wisdom	56,302	95,822,168	2.25	1.59
Total		1,965,150	4,629,944,269	78.63	76.59
Average		327,525	771,657,378	13.11	12.77

Source: Researcher's own computation based on data summarized from

AEMFI Bulletin

Annex 21 Top four critical challenges of Ethiopian MFIs summarized from  
survey of 20% (6 MFIs) of practitioners

S/N	Particulars	Number of respondents	Percentage
1	Loan able fund	6	100
2	MIS	3	50.0
3	Credit line/reluctance of commercial banks to lend to MFIs	2	33.3
4	Staff turnover	2	33.3
5	Regular capacity building program	3	50.0
6	Unfair competition	2	33.3
7	Difficulty to attract competent staff	1	16.7
8	Weak internal control	1	16.7
9	Difficulty to attract saving as required	1	16.7

**Annex 22 Survey questions on the performance of Ethiopian MFIs**

**INDRA GANDHI NATIONAL OPEN UNIVERSITY FACULTY OF RURAL DEVELOPMENT**

**Part I Organizational profile (organization from where to collect information)**

Name of the Institution \_\_\_\_\_

Year of establishment \_\_\_\_\_

Type/form of the institution \_\_\_\_\_

**Total Ethiopian MFIs**

Description	2005	2006	2007	2008	2009	2010
Number of MFIs						

**Part II Outreach**

**Active borrowers outreach**

S/N	Name of MFI	Performance as end of													
		2005		2006		2007		2007		2008		2009		2010	
	Top 4MFIs	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
1															
2															
3															
4															
Total Ethiopian MFIs															

**Note: top four is identified based on number of active borrowers**



**Net loan portfolio outreach**

S/N	Name of MFI	Performance as end of					
	Top 4MFIs	2005	2006	2007	2008	2009	2010
1							
2							
3							
4							
Total Ethiopian MFIs							

**Outstanding deposit**

S/N	Name of MFI	Performance as end of					
	Top 4MFIs	2005	2006	2007	2008	2009	2010
1							
2							
3							
4							
Total Ethiopian MFIs							

**Number of loan officers and total staff members**

S/N	Name of MFI	Number of loan officers as end of					
	Top 4MFIs	2005	2006	2007	2008	2009	2010
1							
2							
3							
4							
Total Ethiopian MFIs							

**Part III: Financial performance**

**Total Asset**

S/N	Name of MFI Top 4MFIs	Total Asset as of						Total net fixed Asset as of					
		2005	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009	2010
1													
2													
3													
4													
Total Ethiopian MFIs													

**Total Equity**

S/N	Name of MFI	Total Equity as of						Total donated equity as of					
	Top 4MFIs	2005	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009	2010
1													
2													
3													
4													
Total Ethiopian MFIs													

**Total operating expense (net of provision and interest on liability)**

S/N	Name of MFI	Operating exp as end of					
	Top 4MFIs	2005	2006	2007	2008	2009	2010
1							
2							
3							
4							
Total Ethiopian MFIs							

**Interest paid on debt**

S/N	Name of MFI	Interest paid on commercial loan						Interest paid on deposit					
	Top 4MFIs	2005	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009	2010
1													
2													
3													
4													
Total Ethiopian MFIs													

**Total net profit**

S/N	Name of MFI	Net profit as end of					
	Top 4MFIs	2005	2006	2007	2008	2009	2010
1							
2							
3							
4							
Total Ethiopian MFIs							

### Balance of debt

S/N	Name of MFI	Debt balance as end of					
	Top 4MFIs	2005	2006	2007	2008	2009	2010
1							
2							
3							
4							
Total Ethiopian MFIs							

### Part IV: Four top challenges of Ethiopian MFIs industry

4.1 \_\_\_\_\_

4.2 \_\_\_\_\_

4.3 \_\_\_\_\_ 4.4 \_\_\_\_\_



Continued.....

**INDRA GANDHI NATIONAL OPEN UNIVERSITY FACULTY OF RURAL  
DEVELOPMENT**

Survey questions on performance of Ethiopian MFIs (exclusively for practitioners)

**Part I Organizational profile (organization from where to collect information)**

1. Name of the Institution \_\_\_\_\_
2. Year of establishment \_\_\_\_\_

**Part II General information**

2.1 Do think that the growth rate of active borrowers' outreach of your institution as per your strategic/operational plan?

If no, why \_\_\_\_\_

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2.2 Is your institution's growth rate of active borrowers outreach in line with that of loan portfolio?

If no, why \_\_\_\_\_

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2.3 What is the likely solution you think important (to be filled if your response to 2.2 is no)

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2.4 What strategies are you using to improve ROA and ROE of your institution?

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**Part III Four top challenges of your institution (from more to less critical ones)**

A. \_\_\_\_\_

B. \_\_\_\_\_

C. \_\_\_\_\_

D. \_\_\_\_\_