

MICROFINANCE IN ETHIOPIA

Elixir or Poison?

A thesis submitted by

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List of Acronyms

ACSI	Amhara Credit and Savings Institution, Share Company
ADB	Asian Development bank
ADLI	Agricultural Development-Led Industrialization Strategy
AEMFI	Association of Ethiopian Microfinance Institutions
ANRS-	Amhara National Regional State
BancoSol	Banko Solidario
BKK	Bank Rakyat Indonesia
CAMEL	Capital, Asset quality, Management, Earnings, Liquidity and Social Impact
CBB	Construction and Business Bank of Ethiopia
CBE	Commercial Bank of Ethiopia
CBO(s)	Community Based Organization(s)
CGAP	Consultative Group for the Poorest
CSA	Central Statistical Authority, Ethiopia
DBE	Development Bank of Ethiopia
DECSI	Dedebit Credit and Savings Institution, Share Company
DFC(s)	Development Finance Company (ies)
DFI(s)	Development Finance Institution(s)
DOI	Depth of Outreach Index
ETB	Ethiopian Birr (Ethiopian currency ETB1 is about USD 0.115)
EU	European Union
FDRE	Federal Democratic Republic of Ethiopia
FeMSEDA	Federal Micro and Small Enterprise Development Agency
GB	Grameen Bank (Bangladesh)
GBCS	Green Bell Consultancy Service
GMFSC	Gasha Microfinance Share Company
GTZ	Gesellschaft fuer Technische Zusammenarbeit (German Technical Cooperation)
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
IPRSP	Interim Poverty Reduction Strategy Paper (Government of Ethiopia)

MEDAC	Ministry of Economic Development and Cooperation (Ethiopia)
MFI(s)	Microfinance Institution(s)
MIS	Management Information Systems
MoFED	Ministry of Finance and Economic Development, Ethiopia
MOTI	Ministry of Trade and Industry, Ethiopia
NBE	National Bank of Ethiopia
NGO	Non-Governmental-Organizations
OCSSCO	Oromia Credit and Savings Institution, Share Company
OMFI	Omo Microfinance Institution, Share Company
ONRS	Oromia National Regional State
PEACE	Poverty Eradication & Community Empowerment Microfinance Institution, Share Company
ReMSEDA	Regional Micro and Small Enterprise Development Agency
ROSCAs	Rotating Savings and Credit Associations
RUFIP	Rural Financial Intermediation Programme
SDPRP	Sustainable Development and Poverty Reduction Programme (Ethiopia)
SDI	Subsidy Dependence Index
SFPI	Specialized Financial and Promotional Institution, Share Company
SMFI	Sidama Microfinance Institution, Share Company
TNRS	Tigray National Regional State
WMFI	Wisdom Microfinance Institution, Share Company

Abstract

This study examines microfinance in Ethiopia. The introductory chapter formulates the issues to be examined and the research questions. The second chapter reviews the relevant literature and presents the theoretical framework. On that basis, the methodology used to collect and analyse data is presented. The third chapter introduces the background of the study (country situation) to provide a brief overview of Ethiopia's macroeconomic condition and financial sector development as relevant to microfinance in the country.

Chapter 4 introduces the general profile of the selected microfinance institutions with respect to formation, source of capital, policy for financial service provision, products, operational locations in the country and, to some extent, internal organization. Chapters 5 to 7 are the main chapters, presenting the findings of the empirical research. Chapter 5 analyses the financial performance of the institutions studied. The chapter shows progress made by the microfinance institutions (MFIs) towards self-sufficiency, comparing them based on operational and financial self-sufficiency. A more rigorous analysis of financial performance is done using the subsidy dependence index. An in-depth analysis of one of the MFIs follows, regarding the relationship between volume parameters and output parameters including some variables related to infrastructure. Some 170 retail outlets (sub-branches) of ACSI, one of the two largest MFIs in the country, are analysed for this purpose.

Chapter 6 examines the outreach of microfinance in both scale and depth, together with the profile of clients and non-clients by exploring features of the client population. Institutional sustainability is discussed in chapter 7. The chapter analyses the ownership, the governance structure and the impact of the regulatory framework on ownership and governance, including aspects of the regulatory framework that have implications for the sustainable operation of the MFIs. The final chapter presents the major findings of the research and draws some conclusions.

Samenvatting

Het eerste hoofdstuk beschrijft het onderwerp van deze studie en de onderzoeksvragen en in het tweede hoofdstuk volgt een overzicht van de relevante literatuur, het theoretisch kader en de in het onderzoek gebruikte methoden en technieken. Het derde hoofdstuk schetst de achtergrond van het onderzoek en geeft een beknopt overzicht van de macro-economische toestand in Ethiopië en van de ontwikkeling van de financiële sector voor zover die relevant is voor de verstrekking van microkredieten in het land.

Het vierde hoofdstuk beschrijft de onderzochte organisaties die microkredieten verstrekken (Microfinance Institutions of MFI's). Daarbij komen de volgende aspecten aan de orde: de oprichting, waar het kapitaal vandaan komt, het beleid voor financiële dienstverlening, de producten, de gebieden waar deze organisaties actief zijn en tot op zekere hoogte hun interne organisatie.

De onderzoeksresultaten worden gepresenteerd in hoofdstuk vijf, zes en zeven. Hoofdstuk vijf bevat een analyse van de financiële prestaties van de bestudeerde organisaties. Om te laten zien in hoeverre deze verstrekkers van microkredieten (MFI's) vooruitgang hebben geboekt op de weg naar onafhankelijkheid, worden ze vergeleken op basis van hun operationele en financiële onafhankelijkheid. Voor een nauwkeurigere analyse van de financiële prestaties is een subsidie-afhankelijkheidsindex gebruikt. Verder is er bij een van de MFI's een gedetailleerd onderzoek gedaan naar het verband tussen omvang en resultaten, waarbij onder meer gekeken werd naar factoren die met de infrastructuur te maken hebben. Hiervoor zijn honderdzeventig filialen van ACSI (Amhara Credit and Saving Institution) geanalyseerd. Dit is een van de twee grootste MFI's van het land.

In hoofdstuk zes wordt de reikwijdte van de verstrekking van microkredieten geanalyseerd, zowel in kwantitatief als in kwalitatief opzicht. Daarbij wordt gekeken naar enkele kenmerken van de cliëntenpopulatie. De institutionele duurzaamheid wordt besproken in hoofdstuk zeven. Daarin worden de eigendoms- en bestuursstructuur en de invloed van regelgeving op het eigendom en het bestuur geanalyseerd. Daarbij komen ook de aspecten van regelgeving die van invloed zijn

op het duurzaam functioneren van MFI's aan de orde. Het laatste hoofdstuk geeft een overzicht van de belangrijkste onderzoeksresultaten en bevat de conclusies van het onderzoek.