Division 41
Economic Development
and Employment Promotion

Microfinance Associations

The case of the Association of Microfinance Institutions Ethiopia (AEMFI)

Deutsche Gesellschaft für
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Table of Contents

List of Tables and Graphics

Tables

Graphics

List of Abbreviations and Acronyms

ADLI	Agriculture-Development-Led Industrialization (Ethiopian development strategy)
AEMFI	Association of Ethiopian Microfinance Institutions
AFCAP	Microfinance Capacity Building Programme in Africa
AFMIN	African Microfinance Network
AFRACA	African Rural and Agricultural Credit Organisation
AMINA	African Micro-finance Initiative
BMZ	Federal Ministry for Economic Co-operation and Development
EPRDF	Ethiopia People's Revolutionary Democratic Front
EU	European Union
GDP	Gross Domestic Product
GOE	Government of Ethiopia
GTZ	Gesellschaft für Technische Zusammenarbeit (German Technical Co- operation)
IFAD	International Fund foe Agricultural Development
IMF	International Monetary Fund
INAFI	International Network of Alternative Financial Institutions, Kenya
MF	MicroFinance
MFA	Microfinance Association
MFI	Microfinance Institution
MIS	Management Information System
NBE	National Bank of Ethiopia (central bank)
NGO	Non Governmental Organization
NPA	Norwegian People's Aid
ROSCA	Rotating Credit and Savings Associations
RUFIP	Rural Financial Intermediation Programme
SACCO	Savings and Credit Cooperatives
SEEP	Small Enterprise Education and Promotion network
SME	Small and Medium Enterprises
SNNPR	Southern Nation, Nationalities and Peoples Region
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	United States Dollar
WWB	Women' s World Banking

Currency Equivalents (<u>As of May 2002)</u>
1 USD (United States Dollar) = 8,41 Birr

Executive Summary

The present report is part of a larger investigation on **microfinance associations** (MFAs) **in** several **African** countries commissioned by GTZ. The background is that large donors increasingly try to support microfinance in a systemic approach - reducing the assistance to individual microfinance institutions (MFI) in favour of supporting (a part of) the microfinance (MF) sector. For many reasons, MFAs are seen as a key to this strategy. However, few systematically collected empirical information is available on this issue - the GTZ investigation wants to contribute filling that gap with a focus on options to practically support the networks. The respective MFA in Mali is AEMFI (Association of Ethiopian Microfinance Institutions). Fieldwork was carried out between 11 and 23 June 2002.

Ethiopia is one of the poorest and most underdeveloped countries of the world. With more than 60 million inhabitants, it has one of the largest populations in SSA. The Ethiopian **economy** is largely based on agriculture, productivity is generally very low. However, the natural potential is huge. In the past three decades, Ethiopia has seen the transition from a quasi-feudal monarchy through a centrally planned towards a market economy. Although this transition is yet far from being terminated, achievements in deregulating, privatising and macroeconomic stabilisation have been made, with drawbacks due to droughts and particularly the war with Eritrea. The future national development strategy (I-PRSP) aims at an agriculture-development-led-industrialization with a prominent role for microfinance, judiciary and civil service reforms, decentralization and empowerment, and capacity building in public and private sectors.

Ethiopia's **formal financial sector** is still underdeveloped and far from being liberalised. Three state-owned banks still have a share of about 85% of all credits, six recently created private banks are mainly active in the urban areas. In general, the formal banks do not reach the urban poor, and even less the poor in rural areas. Cooperative system has been strongly fostered during the communist period and has collapsed with the regime, but recently revitalises with the launch of a new cooperative legislation. The credit and savings cooperatives (715 with about 157,000 members) are basically active in urban areas, and addresses employees only. There are still a few Government organisations active in the microfinance sector, but they are dwindling.

Ethiopia has a strong culture of **informal financial systems**. Friends and relatives provide the bulk of the informal credits. Many people are member of informal savings and credit associations such as *iqqub (*a kind of Rotating Credit and Savings Associations)*, iddir* and *mehabe.* Some MFI try to integrate these associations into their own services.

The **microfinance sector**, presently consisting of 20 MFIs, is large in absolute terms (600,000 clients for normal activities plus some 700,000 to which government loans a re channelled) but small in relation to the potential clientele (9% of demand for financial services). The sector has a **strong unbalance**, two large MFIs with more than 200,000 clients are active in Tigrai (DECSI) and Amhara (ACI) whereas in the other parts of the country only medium and small MFIs are found (or none at all). All large and most medium size MFIs are closely linked to regional governments, whereas the smaller MFIs in Addis and a few other places are linked to national and international NGOs. It is the Proclamation No. 40/1996 which established the uniform licensing and supervision of MFIs as **share companies**. In contrast to most other African countries, in general MF services are mainly directed towards the **rural areas** which is specially due to the two large MFIs. Savings and credit products are quite uniform, partially directed through the legislation (group lending, credit ceilings, etc.). The average loan size is very small, between 27 and 325 USD, which emphasizes the industry's **focus on the poor.** The performance of the MFIs is rather good, although there are not yet audited reports and there is an ongoing debate about hidden subsidies.

A big push for the MF sector is being expected from the forthcoming launch of the **Rural Financial Intermediation Programme (RUFIP)**. This is a sector-wide (coops and MFIs) programme with several donors under the leadership of IFAD. The total volume is USD 88,7 million, most of it for loans and equity support. Primary objective is to promote the effective delivery of efficient, demand-driven financial services to about 1.5 million rural households.

AEMFI official **history** starts in June 1999. The creation has been preceded by a multiplicity of (mainly donor driven) attempts to unify the MFIs, and by conflicts between Government and NGO oriented MFIs. The key motives to build a united MFA have been the facilitation of information and experience sharing as well as political lobbying. The history of AEMFI provides some lessons on the factors which drive the creation of MFAs.

AEMFI's **members** consist of registered MFIs only. Associated members are possible in theory but not yet accepted, honorary members as well. The **governance** structure knows the general assembly as highest body. The Board of Directors has 7 members. Presently, the association counts four perational units, but the structure is yet changing frequently. The staff is small and highly professional, with an academic and consultancy background which is seen as complementary to MFIs' staff structure.

The association has been quickly accepted as speaker of the MFIs and as privileged **partner** of the Government, of the regulatory institution (Central Bank). AEMFI is member of AFMIN and some other transnational associations. Most important donors are NPA, IFAD, PACT-Ethiopia, ADB/AMINA, Ireland AID, WWB, UNDP, CAA (Community Aid Abroad), and SOS Faim. AEMFI cooperates with AFCAP, SEEP. A most prominent role for the future of AEMFI will play the relation to the RUFID programme which sees AEMFI in a lead role which could, however, overcharge the organisation.

The **services provided** by AEMFI include the classical core activities of MFA, information dissemination, communication, networking as well as lobbying. Among other, these functions are carried out through organizing workshops and conferences, organizing experience sharing visits, maintaining a resource centre, publishing a journal and occasional papers, and database maintenance on MFI activities. In addition, AEMFI is strongly involved in training, for the time being as a coordinator of donor-driven courses, but in the future (most probably) as coordinator of nation-wide training programmes financed basically by RUFIP. Other services are consultancy and research, system improvement, and the establishment of a moderate performance monitoring. The assessment of the services is given in the respective study sections.

The **financial sustainability** of the association is extremely low for the time being. Several measures have been decided to improve the situation (membership fees, sale of documents, charge of overheads for trainings, etc.), and it intends to cover overhead costs within the next 3-5 years.

Some **conclusions and lessons learned** on MFA may be highlighted for the case of AEMFI:

External donor support is **less important** for the development of a national MFA than internal MFI coherence. But even in a relatively (legally) homogeneous group of MFIs, rivalries between different MFIs exist, often backed by donor (and other institution) rivalries. As in other countries, Ethiopia shows that the **legislation** is a strong motor for MFA creation. Strong and integrative **leadership** is one of the keys for keeping MFAs together. **Other factors** are joint interests (lobbying), attractive services and the promise of increased donor support. However, many services are of a coordinating nature, MFAs do not have the capacity to carry activities out themselves.

AEMFI does not **represent** the **entire microfinance sector** such as defined by international practice, particularly the cooperatives are building up their own network. A common forum will be most probably needed in the future to deal with common issues such as interest rates and loan ceiling settings, securities and loan recovery, deposit taking, double membership, etc.

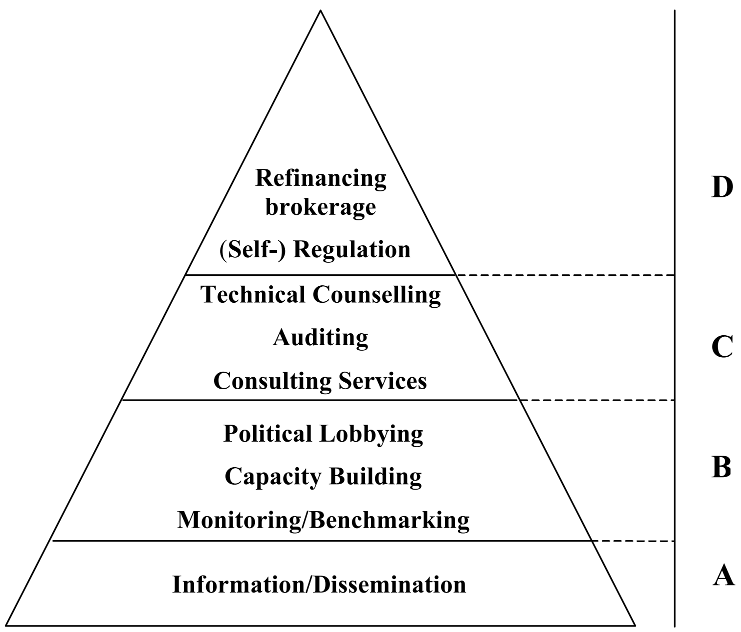
AEMFI (as all other studied MFAs) has not answered the challenge of how to attain **financial sustainability**, nor even what this term means for an MFA. Many of the services and activities provided are not apt to be sold at cost-covering prices, and equal membership fees have to be oriented at the financial possibilities of smaller MFI members. Obviously, not all costs can be covered by own funds, and donor support seems to be indispensable.

1. Introduction

Microfinance (MF) is seen as one of the most efficient instruments to **promote economic development** and to **fight poverty** in poorer countries. Numerous microfinance institutions (MFIs) all over the world have proven that financial services can be offered on an sustainable basis with high outreach. With the increasing importance MFIs and their partners have started to initiate projects and programmes that support the MF industry as a whole. Some of the more prominent examples are the *National Microfinance Strategy* and the *Financial Sector Development Project* in Mali or the Rural *Financial Services Project* in Ghana. Within such **sector wide programmes**, which are supported by a number of donors, issues such as regulation and supervision, training and capacity building, refinancing etc. are seen as crucial elements to consolidate and stabilise the development of individual MFIs. In this sector-wide context, the development of second tier institutions of the financial sector (e.g. Apex-Banks, training centres, MF-associations) have been increasingly focussed in the international debate on developing the MF industry.

Microfinance Associations (MFAs) are one particular form of second-tier organisations. They are member-based nation-wide organisations with the general objective of contributing to stabilisation and consolidation of the Microfinance sector, by providing a number of different **services** such as information/ dissemination, monitoring/ benchmarking political lobbying, training, marketing, auditing and refinancing brokerage. Such services can be provided to members or non-members individually (private goods) or to the sector as a whole (public good). The following chart shows a possible hierarchy of MFA services according to an assumed increase in complexity and exigency for technical and organisational skills on the part of the providing MFA, from most basic (A) to most complex (D)[1].

Figure 1 Service Pyramid of MFA



[1] According to Gross and Al-Bagdadi (2001)

MFAs come from different **backgrounds**. Some have been initiated by the MFI community based on the felt need of MFI to rationalise some of the above services needed by themselves. Others have started as research projects initiated by donors in order to rationalise donor assistance packages being offered to the industry. MFAs are often seen as potential **partner institutions** for donors to create higher leverage, higher dissemination and outreach of their technical or financial assistance packages.

GTZ gives **support** to a number of MFAs within projects and programmes of technical assistance in countries like Mali, Uganda, Niger, Namibia etc. In order to receive a more indepth picture of MFAs in our partner countries, GTZ has commissioned studies on MFAs in six Sub-Saharan African countries with the main objective to identify best practices and success criteria.

This present study is one of **GTZ's series on MFAs** in Sub-Saharan Africa, including Uganda, Ghana, Niger, Mali, South Africa as well as smaller notes on Mozambique and Namibia. It showcases the results of a study of the Ethiopian MFA, called Association of Ethiopian Microfinance Institutions (AEMFI). AEMFI has 20 members of different sizes, including some of the largest MFI in Africa, DECSI and ACSI both serving about 200.0000 clients. In total, about 600,000 clients are served by AEMFI members. The studies want to give an overview of the achievements and threats of MFAs, broad in subjects to be covered, with an in-depth understanding of the underlying forces at work which shape the observed facts. Therefore, their methodological approach has been one of informal interviews with key stakeholders of the sector, including MFA and MFI staff, as well as representatives of donors, governments, regulatory authorities, projects and programmes. The interviews were guided by an interview guideline and the predetermined structure of the reports.

The **study structure** is as follows: After this introductory chapter, Chapter 2 briefly outlines Ethiopian's macroeconomic development in the last decade, followed by a brief overview of the Ethiopian financial and microfinance sector. Chapter 3 gives a detailed analysis of AEMFI. It begins with the presentation of AEMFI's history and overall objectives. Next, the network's organizational and membership structure are highlighted. A particular focus is put on the services offered by the network. Then, AEMFI's financial performance is analysed and discussed especially in terms of self-sustainability. Chapter 4 summarizes conclusions and highlights the challenges for AEMFI.

The field work for this study was carried out between the June 11 and 23, 2002. We **thank** the staff of AEMFI for the assistance while conducting the field work, providing information, organising meetings and supporting the team in any useful way. This was all the more valuable because we could not, as in other case study countries, rely on an existing MF project infrastructure. We appreciated the very open atmosphere during the meetings.

2. Background

2.1 Macroeconomic Context

With a **population** of about 60 million people Ethiopia belongs to one of African's most populated countries. The population is expected to increase up to 105 million people in 2020. It has a **surface** of 1.1 million km² and huge potential resources to produce agricultural output far beyond the need of its people.

Despite its vast natural resource base Ethiopia is **one of the most underdeveloped countries** in the world. Poverty in Ethiopia is not only indicated through the UNDP's Human Development Index (HDI), on which Ethiopia is ranked 169 of 174 countries, but also confirmed by national information sources. The latest Household Income Expenditure Survey and Welfare Monitoring Survey conducted by the Ethiopian Central Statistics Authority (CSA) indicates that in 1999/200, about 44.2 % of the Ethiopian population is living below the absolute poverty line (MEDAC 1999). According to an IFAD study the per capita income of Ethiopia is 110 USD which is the second lowest in the world (IFAD 2001). Poverty in Ethiopia is caused by various factors such as high population growth, environmental degradation, high unemployment, drought, low literacy, limited access to resources, limited access to health and education services, etc. These problems have been aggravated by external and internal wars as well as inconsistent and unstable economic development policies in the last decades.

The Ethiopian **economy** is largely based on agriculture. The agricultural sector accounts for about 50% of GDP, 85% of exports, and 85% of total employment (IFAD 2001; Greenbell 2000). About 70% of the GDP derives from crop production, and 30% from livestock. Six million small scale farmers produce 90% of the crops (Chao-Beroff et al. 2000). The productivity and yields of farming are low. Ethiopian's major export goods include coffee, hides and skin, oilseeds, chat, beeswax, sugarcane etc. Coffee alone accounted for 79% of exports in 1996/97. The industrial sector contributes 10-12% of GDP, the rest of the national output (apart agriculture) traces back to the service sector.

Over the past three decades, the Ethiopian **socio-political** economy has seen a **transformation** from a quasi-feudal monarchy through a centrally planned towards a market economy which is, however, yet far from being terminated. After the Transitional Government of Ethiopia took over power in 1992 a policy towards market liberalization, private sector promotion and poverty reduction has been initiated, although at a slow pace. The structural reforms have been accompanied by a process of **macroeconomic stabilization**. These policies yielded a recovery of economic growth, a decline of inflation, and a reduction of external and internal imbalances (compare Table 1). However, economic performance deteriorated during 1998-2000 due to the combined effects of the war with Eritrea, a prolonged drought and a sharp decline in Ethiopia's terms of trade. Ethiopia and Eritrea signed a peace agreement in 2000. In 2001, the reform oriented wing of the ruling Ethiopia People's Revolutionary Democratic Front (EPRDF) prevailed over its conservative internal opposition, and the Government has focused again on policies towards macroeconomic stability and structural reforms.

Table 1 Development of selected key economic indicators

	94-96	1997	1998	1999	97-99	2000	2001	2002	2000-02	2003-05*
GDP (at market prices)	6.6	5.2	-1.2	6.3	2.9	5.4	7.9	7.0	6.9	2.8
Consumer prices (period average)	5.1	-6.4	3.6	3.9	0.4	4.3	-7.2	5.0	0.7	3.0
Population (% change)	3.0	2.6	2.5	2.5	2.5	2.4	2.4	2.3	2.4	2.8

*projections

Sources : World Bank (2001) and International Monetary Fund (2002)

The **present performance** of **and outlook** for the Ethiopian economy are positive. According to World Bank and IMF, real GDP growth in 2000/01 is estimated at 7.9%, inflation was negative, reflecting a good cereal harvest and large inflows of food aid, and the external current account deficit fell to 4.2%, from 5.2% in 1999/2000. Estimated growth for 2001/02 remains strong with 7%, inflation is expected to rise moderately. For the near future acceptable positive trends are extrapolated.

Poverty reduction is one of the declared objectives of the Ethiopian Government since the replacement of the socialist Dergue regime. This commitment has been reaffirmed repeatedly. Poverty reduction was on of the declared objectives of the first National Development Program (NDP) of 1995 and of the second NDP for 2000-05. A major result of latter NPD is the creation of the **Interim Poverty Reduction Strategy Paper (I-PRSP)**. This paper presents a broad outline for reducing poverty and a strategy that is centred around promoting economic growth and increasing the income-earning capacity of the poor. It comprises four main elements: i) an agriculture-development-led-industrialization (ADLI) which has central importance for the national MF industry (see Box 1), ii) judiciary and civil service reforms, iii) decentralization and empowerment, iv) capacity building in public and private sectors.

BOX 1: Agriculture-Development-Led Industrialization (ADLI)

After the establishment of the Transitional Government of Ethiopia in 1991, Ethiopia has been following a long-term strategy of Agricultural-Development-Led Industrialization (ADLI) adopted in the mid-1990s. ADLI reflects the importance of the agricultural sector for the overall economic development of the country. It is obvious that poverty reduction requires agricultural growth.

Within the ADLI strategy, agriculture and industry are brought into a single framework of development, wherein the development of agriculture is viewed as an important vehicle for industrialization by providing a market base. ADLI combines various components supporting agricultural growth, including technology, finance, rural infrastructure, internal and external markets and the private sector. These components particular target on:

- **Improvements in food security.** The medium- to long-term target is to reduce the absolute size of the food insecure rural population substantially, to exit from food aid, and to rely on fiscal transfers to support a residual number of food-deficit households. Food insecurity is seen as a result of extremely small size of landholdings and drought sensitivity of traditional dry-land agriculture. Measures for achieving **food security include dissemination of information on available technology and voluntary resettlement** from the highland to lowlands under irrigation schemes.
- **Commercialisation of agriculture.** As agriculture is seen as an engine of growth, the need for commercialisation of agriculture arises. This requires more intensive farming, increasing the proportion of marketable output. It is intended to enhance research and extension, intensify and diversify the application of inputs, introduce new products, expand irrigation, encourage service providers, foster contractual production cum trading between farmers and traders and construct rural roads. Leasing of land held by the government will be encouraged by specifying the conditions of lease to facilitate the collateralisation of land.
- **Extension of credit.** Providing loans to small farmers is seen as an appropriate mean to both combat poverty and commercialise agriculture. The government has recognized that microfinance is the suitable tool to achieve this. Hence, in the medium-term future, it is expected that MFIs will be the dominant source of credit supply to smallholder farmers. The existing loans underwritten by the regional governments will be substantially phased out from MFIs. **Deposit mobilization** by MFIs is seen as a second crucial point for the development of agriculture.
- **Industrialization.** Industrialization is the second arm of the ADLI strategy. In the medium-term (i.e. five year period), the share of industry in GDP is envisaged to increase significantly. Partly, this growth will originate from existing investment projects in utilities and manufacturing. More importantly, industrial investment is expected to increase. There are three types of measures that will be undertaken to encourage private investment: i) Examining existing regulations to identify those that should be abolished, modified or retained. Problems with bureaucracy should be solved through civil service reform and capacity building. ii) Encouraging public-private partnerships through establishment of platforms of dialogue. iii) Creating an enabling environment and incentives structures in particular for manufacturing.

2.2 The financial sector

Ethiopia's **formal financial sector** is fairly underdeveloped. Only about 1% of rural households maintain bank accounts. The formal banking sector consists of three state owned enterprises, namely the Commercial Bank of Ethiopia (CBE), the Development Bank of Ethiopia (DBE) and the Construction and Business Bank (CBB), as well as six private banks, which have been established after the liberalization of the banking sector in 1994. In addition, there are several insurance companies and contractual savings funds. A real secondary market in securities is not yet in place but the Government of Ethiopia (GOE) has started first steps to build a stock market, including the promotion of Treasury Bills. Although private banks exist the financial sector is still dominated by the three state-owned banks. In 2001, the CBE accounted for over 80% of total deposits of which a significant share is deposited interest free by the Government. The overall market share of the three state-owned banks in total lending was about 85% (IFAD 2001).

The **outreach** of banks in Ethiopia is limited. CBE and DBE have 170 and 32 branches respectively in the country, and the total branches of the six private banks amount to 89. Most of the branches of commercial banks are operating in urban areas, whereas only 21% of the Woredas (districts) in the country have bank branches (Demeke 1998). Even in Woredas where bank branches exist, the majority of the respective population has no access to financial services, due to high collateral requirements (land or physical assets) which conventional banks demand. But not only the rural poor are excluded from the formal financial system, also small and medium enterprises (SME) lack access to financial services, due to the fact that formal banks are either unwilling (high risk and transaction costs, lack of reliable information on borrowers, difficulties in enforcing contracts) or unable (lack of appropriate information systems and instruments for managing risk, by penalisation of banks by the NBE for lending to enterprises that lack traditional collateral) to serve SME (Amha 2002).

2.3 The microfinance sector

The **cooperative system** has remained strong in Ethiopia. During the socialist regime, cooperatives have been used by the GOE to channel credits, agricultural inputs etc. to the respective target groups. In addition, cooperatives were highly politicised and instrumental for politics. The cooperative system collapsed with the fall of the socialist regime. It revitalizes nowadays due to two new cooperative societies proclamations which have been launched in 1995 and 19997. The first proclamation provides for the establishment of primary and secondary agricultural cooperatives on voluntary basis and democratic principles whereas the latter proclamation aims to develop and promote savings and credit services for members to participate actively in the free market economy.

At present, there are 7,366 **cooperatives** of different types in Ethiopia which comprise 3.7 million members involving 18.4 million family members (Amha 2002). The total capital of cooperatives amounts to more than 61.4 million USD. They mainly provide services to its members such as input supply, credits, (coffee) marketing, supply of consumer goods, savings, flour mill services, tractor services, water pumps etc.

More recently, **savings and credit cooperatives (SACCOs)** appeared in Ethiopia. Altogether, there are 716 with about 157,000 members and 20.8 million USD of savings. The total outstanding loans of the these cooperatives amount to approximately 19.3 million USD. 98% of the SACCO members are employees. SACCOs are almost entirely urban based, 53% are located in Addis Ababa.

In contradiction to the regulation, there are some **Government organisations** which are still providing small credits, for instance in the fame of development projects such as GTZ's LUPO project. This reflects the fact that privatisation of services is not yet accomplished, but also that in many regions, particularly outside Tigrai and Amhara, there are still only few MF service providers.

The **informal financial sector** in Ethiopia is one of the most important sources of finance for poor households. This sector accounts for about 78% of total agricultural credit (Aredo 1993). Within the informal financial system the major sources of loans are friends and relatives (66%), moneylenders (15%), and other (19%). A great number of rural and urban households are members of traditional savings and credit associations such as *iqqub, iddir* and *mehaber*. Iqqubs are the dominant forms, a kind of Rotating Credit and Savings Associations (ROSCAs). Members of *iqqubs* meet weekly, bi-weekly, or monthly to collect fixed sums of payments. Likewise ROSCAs in most developing countries, *iqqubs* are not permanent clubs, they can be continued or dissolved after all members have their turns served. While the *iqqubs* are dominated by the objective to transform small savings into lump sums, *iddirs* and *mehabers* are dominated by their social and religious objectives, for example to cover the cost of funerals and weddings.

The **microfinance industry**[2] in Ethiopia has shown a remarkable qualitative and quantitative growth since the early 1990. The formal base has been laid by the issuance of Proclamation No. 40/1996 which established the licensing and supervision of MFIs as share companies in accordance with the Commercial Code of Ethiopia. 20 MFIs have been registered with the NBE until Mai 2002. With a network of about 500 sub-branches and branches, these MFIs deliver financial services to about 600,000 clients by the mid of 2002, with a total loan outstanding of about 35.5 million USD and a total of mobilized savings amounting to about 15.8 million USD (IFAD 2001). Some MFIs have also disbursed input supply loans to about 786,000 farmers and additionally some MFIs manage remittances for about 100,000 pensioners each month.[3]

Despite these major achievements of Ethiopian MFIs, in sight of the large population size the **outreach** of MF in Ethiopia is still **relatively limited**. It was estimated that the 20 registered MFIs meet less than 9% of the demand for financial services of the active poor (Chao-Beroff

[2] In the Ethiopian context, MFI are those organisations which are approved by the Government according to Proclamation 40/1996, see below.

[3] The total MF client numbers change considerably across source, which is probably due to the fact that the count basis are interchangingly active savers, active borrowers or active clients, and sometimes (in the case of the government-oriented MFIs) they can include the huge number of receivers of the special agricultural loan programmes for which MFIs play the role of simple distribution channels. This may be the reason why sometime the number of 1.3 million MF clients is found.

et al. 2000). This indicates that there is significant unmet potential demand for MF services in Ethiopia.

The **ownership structure** of Ethiopian MFIs demonstrates the particularity of the country's MF culture. Six out of 20 MFIs are largely owned by regional governments and non-profit civil organizations. In other MFIs the equity structures have been sponsored by foreign donors who have contributed the initial capital for required registration. In the latter cases, the "real" owners are not listed as shareholders. These are impacts of the regulatory framework which prohibits unregulated MFI (though some exceptions exist, see Chapter 2.3) and restricts foreigners from holding shares in MFIs (as well as banks). Obviously, the forced legal constitution of MFIs as share companies does not automatically induce business-oriented behaviour nor an ownership oriented at profit maximisation - a clear indicator is that dividends are not distributed to shareholders. In reality, all MFIs have the character of non-profit organisations.

There are **important differences** in size and organisational profile: while most MFIs are at the start-up stage, with less than one thousand clients, there are some MFIs with 1000 to 20,000 clients and two dominant MFIs which are among the largest MFIs in Sub-Saharan Africa, namely DECSI and ACSI (Chapter 3.4). The larger MFIs are all close to regional Governments, and small ones close to national and international NGOs.

Currently, the **influence of regional governments** on MFIs is highly debated in Ethiopia: On the one hand, the far-reaching support of regional Governments and grass-root administrations has apparently made possible the spectacular growth and good performance of Government related MFIs. On the other hand, the reliance on external agents for loan recovery has weakened the independence of MFIs concerning client selection and other management decisions, and is generally not compatible with institutional self-sufficiency.

The average loan size of MFIs varies from about USD 27 to about USD 325, which emphasizes the industry's **focus on the poor**. Unlike most other MFIs in the Africa, Ethiopian MFIs mainly operate in **rural areas** - 78% of their clients are rural households (41% of the clients are women).

The **variety of loan and saving products** is quite limited. Most of the MFIs follow the Grameen Bank model. The initial Proclamation No. 40/1996 reinforced the rigidity of MF services by fixing the loan ceiling (Birr 5000, about 595 USD), the loan term (12 month) and the lending methodology (group lending). Usually, only two types of loan products are offered, namely loans for on-farm activities, and off-farm investments with more flexible repayment schedule. A few MFIs have initiated money transfer services in selected branches on a pilot basis. The lending methodologies and the lending products tend to neglect demand factors, clients are forced to fit into the procedures of a MFI. Recently, attempts have been made to relax the regulatory requirements. MFIs are presently allowed to operate with individual loans to a limited extend, and to disburse loans exceeding Birr 5000. However, the disbursement of such loans is limited to 20% of the outstanding loans of a MFI.

For many MFIs **saving mobilization** is a major element in their operational strategy and has become one of their most important sources of loan funds. For example, the two major MFIs, ACSI and DECSI, have financed 65% of their loan portfolio from savings. In 2000, savings as a percentage of the outstanding portfolio amounted to 56% of all Ethiopian MFIs. In general, there are two types of individual savings, namely compulsory and voluntary savings. Compulsory savings are the dominant type of savings. The interest rate on savings is about 6% per annum.

High loan repayment rates are achieved, they vary from 94-100% according to AEMFI statistics. A more in depth analysis of MFI **performance** seems to confirm the sound position of Ethiopian MFIs.[4] During the years 1998 and 2000, the MFIs showed a nominal and real profit in each year. Their operational viability increased from 92% in 1997 to 144% in 2000, averaging 135% over the past three years (IFAD 2001). Nominal return on equity averaged 7.7% and the inflation-adjusted return was 6.3%. Financial sustainability, taking into account imputed capital costs of 10%, during the years 1997 - 2000 was not fully achieved but MFIs reached decent levels (90-99%). However, many observers say that there are still **hidden subsidies** - which emphasizes the industry's **focus on the poor**. As long as no MFIs proves to be clearly profitable, private investment in the MF sector will not happen. A MFA project called Magdala, having its basis around the Chamber of Commerce, is probably the first really commercial MFI and could challenge the sector culture.

A big push for the MF sector is being expected from the forthcoming launch of the **Rural Financial Intermediation Programme (RUFIP)**. RUFIB has been designed as a national, sector wide investment, which addresses key institutional and policy issues critical for the development of vibrant and sustainable rural financial system (Chao-Beroff et al. 2000, IFAD 2001). The programme will be located in the DBE and organised and executed by Ethiopian national institutions such as the NBE, DBE, AEMFI, the commercial banks, RUSACOs etc. It will be financed by the GOE and some multilateral agencies (IFAD, AfDB, possibly UNDP and EU) and will receive additional support from bilateral donor agencies (USAID, DFID, Irish Aid). The total volume is USD 88,7 million, most of it for loans and equity support. It addresses both MFIs and cooperatives. Primary objective is to promote the effective delivery of efficient, demand-driven financial services to about 1.5 million rural households through:

- enhancing outreach through institutional development,
- provision of equity and credit funds,
- development of grass-roots, people owned and managed rural financial cooperatives,
- establishment of linkages between the rural financial institutions and the banking system,
- improved regulation and supervision.

Table 1 provides an overview of the **historic development** of the Ethiopian MF industry, with relationship to the larger context of the national political and economic situation. It shows that the Association of Ethiopian Microfinance Institutions (AEMFI), established in 1999, is a very recent emanation of the sector.

[4] These performance indicators are not audited. In accordance with the Commercial Code of Ethiopia, NBE has enacted Ethiopian MFIs to be audited within the year 2002.

Table 2 Histogram of important events affecting the MF sector in Ethiopia

Year	**Domain**		
	National frame	Microfinance sector	Individual MFIs
1974/75	End of monarchy, start of military regime (DERG), nationalisation of banks, land, etc.	First credit and savings cooperatives	
1985		First NGO credit and savings activities after 84/85 famine	
1991	Democratisation, EPRDF government		
1993	Separation of Eritrea		Start of REST credit and savings operations (later DECSI)
1994		Proclamation on Monetary and Banking and Licensing through National Bank	
1995	First parliament election		
1996		Proclamation on MFI regulation	
1997			Establishment ACSI, DECSI, OCSSO, OMFI, SFPI
1998	War with Eritrea for Badme region	Proclamation on cooperatives	Establishment GASHA, Wisdom, Sidama, Asser, AVFS
1999		**Creation of AEMFI**	Establishment Buusaa

3. Association of Ethiopian Microfinance Institutions

3.1 History

AEMFI was registered and licensed as an association by the Ministry of Justice on June 28, 1999. There are many good reasons for the creation of AEMFI as listed in the next Chapter ("vision, mission and objectives"), but the **key motives** seem to have been the **facilitation of information** and **experience sharing** as well as **political lobbying** (which is not called so, compare Chapter 3.6.8). The latter in sight of the strong grasp of the Government on the industry since 1996 (Without author 1999). Some seed funds were available: UNDP spent 25,000 USD during starting phase for meetings, consultants etc. WWB provided 5000 USD for initial equipment.

The creation was preceded by **a long period** during which donor organisations and MF practitioners made **attempts to link the MFIs** of Ethiopia. These attempts include (Amha 2000): i) World Bank/Redd Barna Ethiopia via WB's Action Research Program (Muntemba and Amuah 2000), ii) UNDP/Women's World Banking, iii) a joint initiative of big national MFI (DECSI, ACSI, OCSSCO and OMFI), iv) World Vision Ethiopia, and v) Pact-Ethiopia and CRDA. The efforts began in 1994 with the World Bank initiative and were later often running in parallel. However, they were not synergistic, and the period has been described as one of struggle for power and influence, tension among MFIs, unhealthy competition among donors. For some time, two networks coexisted: AEMFI and Micro Credit Development Forum (MCDF). The first was formed by the Government-oriented MFI, in particular DECSI and ACSI, the latter by the NGO-led MFIs. It is only in 1999 that the MFI organisations joined, after a series of meetings, personal interventions and the slow creation of a common base. The MCDF converted into an APEX-body of NGOs which delivers non-financial services to self-employment enterprises - some MFIs such as SFPI are members of both associations.

A definite reconstruction of the history conducting towards AEMFI was impossible, also since many of the actors are no longer in Ethiopia. However, some of the comments from interview partners are well worth mention since they give important **lessons for the conditions of network creation**:

- Several of the initiatives, including World Bank and UNDP, did not origin in the MF industry. They remained **external initiatives**, mainly consisting in the organisation of workshops and isolated case studies. Although this might not have been an absolute handicap, the fact that there was no continuous follow-up (by a secretary and personal commitment) weakened the initiative substantially. Commitments of MFI managers during the workshops were not kept because of lack of capacity.
- World Bank was negatively associated with massive arguments with the large government-oriented MFIs about appropriate interest rates which it wanted to see lifted but which the governments saw as a main variable for the poverty-impact of the programmes. World Bank was seen as partially supporting the NGO-oriented MFIs. Thus, **political bias** was discrediting World Bank's MFA initiative. Vice-versa, a similar handicap incriminated the Government associated MFA initiative in the eyes of NGOs.

- **Initiatives from NGOs** were suspected to lobby against the professionalisation of the industry - this concern was pronounced even by managers of MFIs which are NGO off-springs.
- Suspicion of undue **personal ambitions** discredited some initiatives.

According to all partners, the internal experience sharing and discussion forum that is provided by AEMFI has largely contributed to the reduction of the former tensions. The merger was certainly very useful for obtaining a strong political position of the MF industry, but it is particularly attributed to the facilitation capacity of Dr. Amha, the Executive Director of AEMFI. Although he was brought into the game by the Government-oriented MFIs, he was able to gain a position of strict neutrality acknowledged by all sides. In addition, there is also an important hidden agenda in the unification:

Small NGO-oriented MFIs would have joined AEMFI because they saw more potential in influencing policy aside the big MFIs instead of taking a counter position, even at the risk of being partially dominated. In addition, the small MFIs can obviously learn from the big ones in terms of managing growth and decentralisation.

The motivation of the large government-oriented MFIs is less obvious. Probably, they sensed their image in part of the donor community as being quasi Government bodies as a disadvantage. This could have hampered the political strength of “their” MFA vis-à-vis some important donors, and for getting their support, the coalition with the NGO-oriented small MFIs was welcome. The merger would also give government-oriented MFIs more independence from the regional Governments, necessary for a professional development because the close relation has not only advantages (see Chapter 2.3). Finally, the regional competition between MFIs is generally low (though it seems to have been very difficult for new MFIs to get permission to establish in the Tigrai and Amhara region) which made cooperation easier.

3.2 Vision, Mission and Objectives

“The **vision** of AEMFI is to see a reduced level of poverty and increased level of consumption and ultimately wealth/capital creation in Ethiopia through an active intervention of current and future microfinance institutions growing into efficient and sustainable rural banks and micro-finance banks. AEMFI is committed to be support MFIs that can reach millions of poor Ethiopians that can play active role as financial intermediaries and institutional investors”. (AEMFI 2001a)

“AEMFI’s **mission** is to create an institutional structure that serves as a national/industry forum and network for microfinance institutions that provide micro-finance services to economically and socially disadvantaged Ethiopians. Currently, members of AEMFI consist of 20 microfinance institutions that are contributing towards poverty reduction by providing micro-finance services to over 500,000 poor Ethiopians. AEMFI helps to increase the efficiency and effectiveness of the existing MFIs and facilitate the establishment of new ones.” (AEMFI 2001a)

Vision and mission reflect the fact that Ethiopian MFIs are strongly devoted to **poverty alleviation**, a constitutional factor of the Ethiopian MF sector (compare Amha 2002c) which is not always as clear in other countries. This is in contrast with their (compulsory) institutionalisation as share companies. In Ethiopia, (the juridical) **form does not follow** (socially constituted) **function**.

Based on the vision and mission statements cited above, AEMFI strives to achieve the following **objectives** (AEMFI 2001a):

- "help build multifaceted capacity of MFIs in Ethiopia mainly through training
- study the status, problems, and prospects of existing MF institutions in Ethiopia and assess the feasibility of forming new ones
- help improve the national policy and regulatory environment the MF industry and its beneficiaries in Ethiopia
- help MFIs pool loan and equity funds from domestic and foreign sources
- help formulate and disseminate resolutions and best practices related to the MF industry in Ethiopia
- help appraise and improve the performance of MFIs by serving as the industry's self-monitoring and database forum
- facilitate collaboration, experience-sharing, and information exchange among MFIs in Ethiopian and the rest of the world
- provide MF related information resources for use by policy makers, donors, lenders, continental and international networks, researchers, MF beneficiaries, and the general public
- advocate about the MF industry in Ethiopia through media and publication and
- stimulate exceptional contributions of individuals and organizations to the MF industry by creating incentive systems".

These objectives are similar though differently formulated and classified compared to previous documents, notably the objectives and purpose statement in AEMFI's memorandum of association and the annual reports. The public advocacy, fund raising and performance appraisal are probably more clear in this later version. New accents are the incentive systems for exceptional contributions, and a certain concern for the creation of new MFIs. Yet, it is obvious that the precise definition of objectives is not yet fixed as new ideas and issues arise. A **consistent utilisation of categories** (objectives, programmes, activities) and a **sharper focus on end products** (services) is desirable and will certainly be introduced with the formulation of AEMFI's business plan which is scheduled for 2002 with technical assistance provided through Ireland Aid.

3.3 Organization

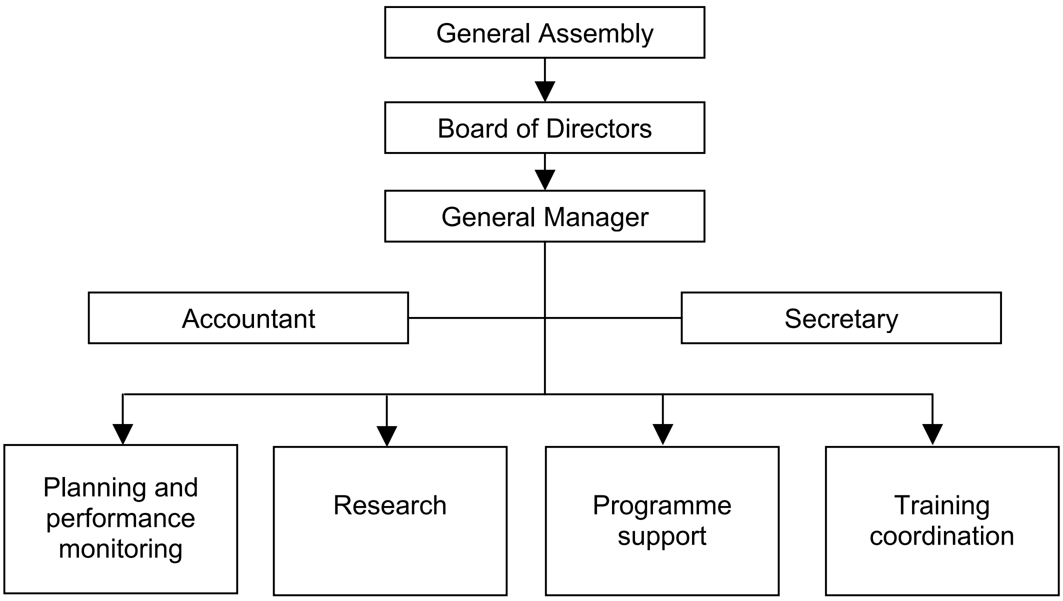
3.3.1 Organization and Governance structure

The supreme body in AEMFI's organizational structure is the **general assembly** which consists the board chairpersons of member MFIs or of their general managers. The management staff of AEMFI are non-voting members of the general assembly. Each member MFI has equal representation and voting right. According to the memorandum of association, the general assembly meets every two years, elects and appoints the board of directors and the auditors of AEMFI. The **board of directors** has 7 members comprising of the general managers or board chairpersons of the member MFIs. The executive director of AEMFI is appointed by the board and is a non-voting member of the same.

At present, **board members** comprise representatives of Buusaa Gonofa, Wisdom MFI, OCSCCO, DECSI, ACSI and OMFI. There is a certain equilibration of NGO (first two) and Government oriented (last four) MFI representation within AEMFI, but the domination of the latter in terms of outreach and financial capacity is acknowledged and visible.

The **organisational structure** of AEMFI in October 2001 was as shown in Figure 2. This structure has changed several times with the recent increase of AEMFI's staff, in October 2002 it is as shown in Figure 2.

Figure 2 Organisational structure of AEMFI as of October 2002*



* according to comments of Mr. Amha on the draft report

3.3.2 Staff (background, education, working experience)

The staff of AEMFI has developed from a one-man show to a 6 person institution within three years. The **executive director**, Dr. Amha, has been a lecturer in agricultural economics (specialisation marketing) with Awasa College, worked for the Grain Development Project of USAID, and later as a consultant mainly on MF, human resource development, food security and commercialisation. He is leading member of the Ethiopian Association of Agricultural Economists. He has been involved in the creation of AEMFI since its beginning, first as a consultant then voluntary and part-time director. His contribution to AEMFI is seen by all observers as indispensable for the success. The major traits which are considered as instrumental for the network are: impartiality, open access to members and stakeholders, understanding of institution building, strength in writing proposals and reports.

The next **staff** to join AEMFI was a secretary, Miss Tesfaye, who keeps a bachelor and is presently in Italy for obtaining her masters with focus on microfinance at the University of Milan, financed by NPA. The core staff was later joined by an administrative assistant and by a junior accountant. Two senior staff members joined AEMFI recently: a financial analyst, Mr. Yehualashet, came in September 2001. He has a master degree in accounting and finance from Great Britain and many years of experience as consultant and teacher. The training coordinator, Dr. Kassahun, joined AEMFI in April 2002 only. During 10 years he worked in the DERG Government, then went to the USA where he lectured agricultural economics at Minnesota University and at a high school. For three years, he was consultant on economic damaging.

The staff structure of AEMFI is certainly not yet definite. Miss Tesfaye will have to find a new managerial task, and the coordination of the starting IFAD/RUFIP programme will probably require the recruitment of a special administrator (particularly for training). Overall, the personal has a strong academic but also consultancy background with good English skills and international experience. This profile should give the association a **good professional standing** and probably a **complementary advantage** for the MFIs with their often more practical and local MF background.

3.4 Members

AEMFI knows **three types of members**: (a) regular members, which can be any Savings and Credit Institution, which is licensed and registered and has been effectively providing services for a minimum period of six months; (b) associate members, institutions that are directly or indirectly involved in MF activities; and (c) honorary members, persons which can contribute positively and support the fulfilment of the objectives of the Association. Members of type a) and b) pay full membership fee, but b) have no voting right.

The provision for **associate and honorary members** must be seen as a consequence of AEMFI's main goal of sharing experiences and information, and should contribute to transparency. In addition, it can improve the financial sustainability of the association. However, for the time being no associate and honorary members have been admitted although applications are present. This waiting attitude is deliberate, since it is not yet clear what rights and duties these members should have. For instance, consulting firms are expected to have a commercial interest in joining AEMFI due to the facilitation of services and easy access to the entire MF sector, which could give scope for higher membership fees.

Up to June 2002, 20 MFIs have become **full members** of AEMFI. Main characteristics of these members are summarised in Table 3. The data are somewhat outdated, for instance SFPI's number of clients has doubled, both DECSI and ACSI have passed the mark of 200.000 clients. There is an obvious division between two rather big organisations, DECSI and ACSI with presently both more than 200.000 clients, a few intermediate MFIs of 5,000 - 40,000 clients, and several smaller ones with less than 5000 clients (compare Chapter 2.3).[5]

Table 3 Basic characteristics of AEMFI regular member MFI, as of January 2001 (if not indicated otherwise), value indicators (last three columns) in Birr

No.	Name	Operational region	Off. year of establ.	Regional Gov. share (%)	No of client units	No. of active clients	% of female clients	% of rural clients	Average loan size	Accumulated savings**	Outstanding loans**
1	Amhara Credit and Savings Institution S.C. (ACSI)	Amhara	1997	25	160	192,571	47	75	900	66,439	82,554
2	Dedebit Credit and Savings Institution S.C. (DECSI)	Tigray	1997	25	109	187,550	41	80	600	103,030	117,769
3	Ôromia Credit and Savings Institution S.C. (OCSCCO)		1997	25	29	37,000	12	99	1,000	13,885	25,353
4	Ômo Microfinance Institution S.C (OMFI)	Oromia	1997	80	53	39,342	35	95	600	14,053	26,213
5	Specialized Financial and Promotional Institution S.C. (SFPI)	SNNPRs	1997	-	1	3,700	80	1	1,000	1,390	2,840
6	Gasha Microfinancing S.C.	Addis	1997	-	3	3,217	85	0	800	1,072	2,886
7	Wisdom Microfinancing S.C.	Amhara, SNNPRs	1998	-	11	8,535	30	85	755	3,210	8,419
8	Sidama Microfinancing S.C.	SNNPRs	1998	-	11	4,286	60	90	1,800	1,408	5,393
9	Asser Microfinancing S.C.	Addis, SNNPRs	1998	-	3	3,100	n.a.	73	750	90	755
10	Africa Village Financial Services S.C.	Addis	1998	-	7	450	60	n.a.	1,500	137	430
11	Buusaa Gonofa Microfinance S.C.	Cromia	1999	-	3	2,758	85	87	n.a.	71	869
12	Mekket Microfinance Institution S.C.	Amhara	1999	-	1	2,300	85	100	400	78	196
13	PEACE Microfinance Institution S.C.	Oromia, Amhara, SNNPRs	1999	-	7	974	62	100	682	296	1,451
14	Addis Credit and Savings Institution S.C.	Addis	2000	96,7	4	7,000	70	n.a.	1,300	994	7340
15	Eshete Microfinance Institution S.C.	Oromia	2000	-	1	516	54	70	500	47	746
16	Wasasa Microfinance Institution S.C.	Oromia	2000	n.a.	2	562	31	69	498	124	519
17	Meklit Microfinance Institution S.C.	Addis, Cromia	2000	-	2	1,001	73	n.a.	700	387	900
18	Benishangul Microfinance Institution S.C.	Beni-shangual	2001	-	n.a.	425	60	100	n.a.	n.a.	n.a.
19	Shashemene Eddir Yelimat Agar MFI S.C.	Cromia	2001	n.a.	n.a.	200	58	n.a.	1,275	43	340
20	Metemamen Microfinance Institution	Addis	2002	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

* in some MFI, the smallest units are branches, in others sub-branches; **according to NB data of June 2001; n.a.=not available

Source: Adapted from Amha and Shiferaw (2001) except Government shares: Shiferaw and Amha (2001). It must be reiterated that the shares of regional governments does not correctly depict the true influence of the Government, since several other shareholders are government-near associations such as regional farmers, women and youth associations

[5] Clients for which MFIs are only used as channel (see Chapter 3.3) are not taken into account in AEMFI statistics.

The large and intermediate MFIs are exclusively Government aligned, the smaller ones mostly NGO aligned (Chapter 2.3). Not only are these **two types of MFI members** different in their distance to party and governments, but also in size, ownership structure, target group, mechanism of operation, even operational and financial cost structure and performance. Although AEMFI has achieved to unite the different institutions under one roof and reduce the differences substantially (Chapter 3.1), this difference could re-emerge as a line of future conflicts. Several interviewed persons agreed that more conflict could arise if substantial resources would be distributed via AEMFI.

3.5 Partners

3.5.1 Government of Ethiopia

Good working relations exist between AEMFI and the relevant bodies of the GOE, notably the National Bank. For instance, AEMFI regularly receives and comments on Directives, and the NB has participated in several workshops and conferences organised by AEMFI. The good relations of ACSI and DECSI with the GOE via its members and the regional governments have certainly contributed their part to this relationship.

The status of AEMFI is bound to improve. In the frame of IFAD's RUFIP programme (see Chapter 2.3), AEMFI's chairman of Board of Directors has a seat in the National Rural and Microfinance Policy Steering Committee, together with high level representatives of Governmental authorities (National Bank, Ministry of Finance) and other representatives of financial institutions (coops, banks). AEMFI is supposed to give technical advise to the NB in the frame of the IFAD programme and an EU project intended to strengthening its supervising capacity.

3.5.2 Collaboration with Regional and other National Networks

AEMFI is a founding member of AFMIN (African Microfinance Network) with a seat in the board. The director of AEMFI is board member of INAFI - Africa's Rating Microfinance Trust Fund and has applied as a member of African Rural and Agricultural Credit Organisation (AFRACA). It is member of the Ethiopian donor technical group in which some donors try to coordinate the interventions (indeed, it comprises only 6 donors; Irish aid, USAID, UNDP, DFID, EU and IFAD). Recently, AEMFI has gained a bid for participation in the SEEP network support programme.

3.5.3 Donors

AEMFI has been very successful in writing funding proposals, an activity for which it is well equipped through the former consultancies of its director and, more recently, other staff (Chapter 4.3.2). AEMFI receives assistance from several **donor organisations** which include NPA, IFAD, PACT-Ethiopia, ADB/AMINA, Ireland AID, WWB, UNDP, CAA (Community Aid Abroad), and SOS Faim. Simplified, the assistance comes in the form of financial assistance for the general budget (NPA, Ireland AID, PACT Ethiopia), contribution to specific activities such as conferences and training courses (World Bank, UNDP, WWB) or financing specific functions/staff within AEMFI (IFAD NGO grant, PACT Ethiopia). No external technical assistance has been provided to AEMFI apart from the assistance for training and conducting special studies. In addition, several external contributions do not directly show up in AEMFI's budget and structure, but have nevertheless importance for its role. For instance, the training courses provided by ACFAP are organised by AEMFI, but no service charges are taken and AFCAP is paid directly by the donor (Ireland Aid).

A most prominent role for the future of AEMFI will play the relation to the **IFAD/RUFID programme** (Chapter 2.3) which sees AEMFI in a lead role (Box 2). The support of 363,000 USD (including contingencies) over 7 years includes personnel, vehicles, technical assistance etc. In addition, AEMFI will have ample means to influence the allocation of RUFIP-funds through its role in the steering committee and as institutional partner in the design and implementation of specific activities (product development, training modules, trainer and adviser selection, etc.). Thus, AEMFI is control organ and prominent receiver in one.

Box 2 Role of AEMFI in Developing MFIs as seen in RUFIP

"The Association of Ethiopian Micro Finance Institutions (AEMFI) will have the lead role in improving access to information on best practices in the sector, facilitating experience sharing and providing a national level forum for policy dialogue with the objective of positively influencing the policies governing microfinance activities in Ethiopia. AEMFI in the recent past has played an invaluable role in the transition of MFIs from NGOs to potentially sustainable financial institutions. The Association has potential to play a critically useful role in (i) the participatory development of financial sector policies and regulations, (ii) promotion of microfinance industry in access deficit regions, (iii) establishment of a dependable data and information base, (iv) coordination of research, surveys and training activities, and (v) establishing benchmarks and performance indicators for self-regulation. The present infrastructure and support to AEMFI are, however, inadequate and need strengthening. The Programme would provide support for equipment and goods and enhanced mobility. In addition, a resource centre for publications and information dissemination, publications of statistical bulletins and occasional papers will be assisted by the Programme. Technical Assistance of Training Co-ordinator and Financial Management Specialist to AEMFI is also envisaged for support under RUFIP. For 12 of 55 activities AEMFI is "lead implementer", for 27 of 55 milestones in the general and MFI components it is "responsible authority.

IFAD (2001)

Inasmuch as we support the assessment of IFAD regarding AEMFI, the risk is obvious that the young organisation will be torn into a role which it is not yet sufficiently settled for, all the more since the institutional set-up of RUFIP and the institution-building processes are weakly delineated. Interest conflicts, particularly along the old lines of MFI antagonisms could resurge if access to important resources is at stake. This fear is shared by many persons inside and outside AEMFI. In addition, AEMFI's conflicting attributes between member based organisation and control/implementation agency can overstretch its internal management and decision making capacities. Of course, the opportunity of decisively influencing the future of the Ethiopian MF sector is too attractive to be dismissed by not jumping on the RUFIP train.

3.6 Services offered

AEMFI does not talk consistently about **services** that it offers but more often of **objectives, activities** and **outputs**. In the long term it is intended to charge fees on most of the outputs, but for the time being hardly any fees are charged at all.

To achieve its objectives, AEMFI intends to carry out the following **programs or activities** (this classification follows AEMFI's most recent statement document (AEMFI 2001a) which is not identical with previous documents, e.g. AEMFI memorandum of association or annual reports):

a Coordination of training
b) Systems improvement
c) Conducting research
d) Organizing workshops and conferences
e) Organizing experience sharing visits
f) Performance monitoring and database
g) Maintaining resource centre
h) Industry promotion and publication
i) Administration and fund raising

These activities or services are discussed below in some detail, as far as they have already materialised. Some potential services are discussed in Chapter 3.7. It is noteworthy that for most activities and decisions which include material advantages or could engender important consequences for the industry (selection of trainees, consultants, visiting participants, etc.), ad hoc committees are selected among the board members in order to assure maximum **transparency** and **balance of influences**.

3.6.1 Coordination of training

Among AEMFI's activities, those related to training are the most prominent. Lack of knowledge and skills at all levels of the sector is seen as one if not the **major bottleneck** for a healthy growth of the MF industry. Apart the dissemination of information, exchange of experiences and visits, it is mainly through training that this issue is addressed.

AEMFI intends to play the following **roles in the training programs**: (1) assess the training needs of the MFIs; (2) develop training content; (3) develop training modules; (4) identify local and expatriate with wide range of experience and knowledge that can be used to conduct the trainings; (5) conduct training; (6) document the training process;

(7) evaluate each training program and make follow up; and (8) build a training centre (AEMFI 2002).

The preliminary trainings needs assessment with its members gave the following picture for different **target groups within the MFI** and the **major topics** (AEMFI 2001) which is at the same time a good picture of the challenge in designing training for an entire sector: At the **level of senior management and support staff**: business planning and budgeting; project design and proposal; product design and development; monitoring, evaluation, and impact assessment; accounting and reporting for consolidated entities; financial management and statements analysis, management information system for MFIs; human resource management; credit and saving mobilization strategies; research and survey methods; internal control and audit. At the **middle level:** branch planning, budgeting, and accounting; project planning and control; monitoring, evaluation, and impact assessment; credit and saving management; internal audit and control; human resource management; communication and report writing; entrepreneurship and small business development; records management; and at the **operational level:** communication and writing skills; internal audit and control; basic management concepts; internal audit and control; community mobilization and participation; records management.

The **MFIs** themselves have more or less elaborated **in-house training programmes**, both school-type and (mostly) on the job training. In addition, refresher training is provided sporadically. AEMFI did not have much problems in collecting the existing training material - at least in this regard the competition between MFIs does not affect internal cooperation (as was observed for instance in Mali). It may well be that the low implication of international donors and the high degree of self-made methodology facilitates this openness with regard to intellectual property rights - there is relatively few to loose with regard to elaborated material.

Despite AEMFI’s well defined training agenda, **in the past** it has not implemented a straightforward training programme, basically for lack of resources. For the time being, no own training modules have been formulated. Instead, AEMFI was quite successful in acquiring, coordinating and/or co-organising existing **external training course programmes** of interest for its members. Examples are branch manager training funded by UNDP in 2000, financial ratio analysis by SEEP/Amina in 2001, and training of MFI trainers by AFCAP in 2002. The latter was provided, based on a strategy by and participant selection through AFCAP, not only to member MFIs but also to local consultants and university teachers in order to create a sustainable MF support sector. The disadvantages of such isolated activities for AEMFI is obvious: less specificity of trainings for the Ethiopian situation, lower control of timing and targeting of trainings, unsystematic structure and linkages between modules.

There are **several new activities** ongoing or in the pipeline: A new needs assessment is presently taking place as part of the operational and financial monitoring survey of members. In addition, IFAD/RUFIP plans to conduct a very striving needs assessment in which AEMFI is supposed to participate. New funds are available through Ireland Aid for a three-year training programme (for trainers and MFI staff), through a project of the Ethio-

Italian Development Cooperation (for branch staff in one particular region), through ICCO (for trainers and MFI branch staff) and, most prominently, through RUFIP (see above). With the University of Makale, a curriculum for master students specialising in MF is in discussion.

There is not yet an established **institutional set-up** of MFI training activities. For the moment, due to the very nature of scattered training activities, facilities are organised ad hoc. In the context of the IFAD programme, service providers such as the Furra Institute of Development Studies, the Mekelle University, the Ethiopian Institute of Banking and Insurance (EIBI) are discussed as permanent partners, but there is no concrete planning yet. The IFAD programme is very unspecific in its institutional targets, and so is AEMFI. This may be for leaving maximum flexibility, but there is a real risk that the institutional founding of MFI training will remain weak, once that the IFAD funds start to be spent and institutions hurry up to facilitate this, neglecting the true costs and pricing of courses on the Ethiopian non-IFAD market as well as the long-term institutionalisation of the sector.

3.6.2 (Management Information) Systems improvement

In this programme, AEMFI seeks the improvement of the **accounting, operations, human resource and materials and property information systems** of member MFIs. The timely delivery of data is seen as a key bottleneck for both large and small MFIs. Large organisations operating in remote areas are facing particular logistical difficulties in assembling and monitoring data. The lack of well functioning Management Information Systems (MIS) has concrete consequences: The National Bank has announced penalties if annual audit statements are not delivered 6 months after the end of the fiscal year (as stipulated by the regulations but not yet respected by MFIs), and also RUFIP will require audits, reliable data and good information management for granting programme loans.

Activities undertaken so far have been included in training workshops and conferences. Recently, 6 MFIs with support from AEMFI have decided to purchase a **common MIS software**, developed by an Ethiopian consultancy firm. The major reason for this choice seems to be the availability of in-country support. Other MFIs have not yet decided on the MIS or prefer in-house solutions, because the software is considered to be not yet stable. A common MIS for all MFI would offer interesting perspectives, not only for better technical support but also for the easy provision of standard information on the industry or the establishment of a common databases on loanees or defaulter (credit information centre).

3.6.3 Conducting research

The proposed **research subjects** are those which are of interest to the whole industry, but the subjects reflect also the demand from donors since no own sources are available for AEMFI to conduct studies. A study on the feasibility of MF activities in neglected regions of Ethiopia has been accomplished in 2001. A gender study has been realised recently but not yet published. For studies on ownership, product development, and MIS, tenders of interested local consultancies have been invited. Impact studies are envisaged at the household and regional as well as national level, the latter particularly in the frame of the IFAD/RUFIP programme.

The nature of this programme is modest. **The studies are** not academic research but could be classified as **classical consultancy**. This does not reduce their value. The fact that they are supervised and issued by the national MF association could give them more authority than usual studies. This requires that a thorough revision mechanism is in place in order to assure quality and the agreement of members. However, it must be doubted whether “real” research, for instance on new MF products, can be carried out by AEMFI. As in the case of training, it is more realistic to assume that AEMFI can commission and guide the work of MFIs and academic researchers who are more close to the problems and/or have more human resources available.

3.6.4 Organizing workshops and conferences

These activities are conducted for different purposes, particularly related to the trainings programme (Chapter 3.6.1), information exchange and the public relations programme (Chapter 3.6.8) where they are discussed in some detail.

3.6.5 Organizing experience sharing visits

Although sharing visits include local and foreign experience sharing visits, it seems that within AEMFI mainly **foreign country visits** are programmed. There are arguments to think that such visits are particularly important in the Ethiopian context - for historical, cultural and political reasons the country (and its institutions) tends to be isolated. Two visits have been accomplished: to Kenya and to Bangladesh. The Bangladesh experience is particularly interesting to follow, first because the Ethiopian MF industry is historically and legally strongly oriented towards the Grameen Bank model (Chapter 2.3), and second because the visit is well documented through a working paper (Amha 2001). Several pertinent observations are discussed there which indicate that the visit may have contributed to a certain demystification of the Bangladesh case and strengthening of own positions (lack of legislation, limits of women’s empowerment, weak ownership structure, ASA’s innovative products, etc.) which may open the way to more own innovations. This type of visit documentation gives the exchange visit and the lessons learned for the MF sector an “official” character and permits a better leverage within and beyond the association. Donors financing exchange programmes should insist on such reports. New visits are programmed for Indonesia and India.

Visits within Ethiopia are neither systematically promoted nor highly ranked by interview partners. This is probably due to the fact most of the MFIs have a relatively homogeneous structure, that such visits are already a matter of course, and/or that there is still a certain mutual reserve. However, much has been achieved in getting the national MFIs closer together, through AEMFI meetings, national conferences, workshops etc.

3.6.6 Performance monitoring and database

Next to training, **performance monitoring** is one of the most prominent objectives of AEMFI. All MFIs welcome this service, they expect benchmarks and useful indications for own performance control. For the time being, the information on the financial situation of Ethiopian MFI is not very good (in depth, quality and timeliness). In particular, the programme is seen as a way to rationalise the discussion about sustainability of MFIs, and the dispute between NGO oriented and Government oriented MFIs on hidden subsidies (Chapter 2.3). Via the technical performance monitoring, many more political issues (such as cross-subsidisation of financial and non-financial services by NGOs or involvement of Government structures in MFIs) could be discussed and appropriately settled.

The activities in this area have been effectively launched at the beginning of 2002, after the installation of AEMFI's financial analyst. A SEEP workshop with contribution from CGAP in Harare in December 2001 was judged as very useful in planning the programme, an internal workshop was organised to define the data to be collected. Software of **Micro Banking standards project** (funded by CGAP) will be used for data processing and analysis, technical assistance will be provided with assistance from SEEP. The assistance is part of an African (and World wide) effort to publish comparable information on MFIs.

AEMFI has developed two questionnaires to **collect information** on institutional as well as financial and operational issues of MFIs in order to identify their needs. The return is sluggish and needs assistance. A recent training by AFCAP has addressed the problem, but not all MFIs participated (selection by AFCAP) and more assistance is needed. Results are expected for the second half of 2002. It is intended to publish the consolidated data on a half-yearly base.

However, "**regulatory" elements** such as sanctions for non-fulfilment with certain norms are **not intended** to be built into this service. First, this would raise questions about the quality of the data, and it is not likely that AEMFI can build up its own internal control system, because of substantial resource requirements. Second, the attribution of any advantage (such as awards by AEMFI, not to talk about massive donor support) due to performance criteria risks to damage the solidarity build up during the last years. More important, there is an intrinsic conflict to control MFA members through the member-controlled association. However, AEMFI and MFIs accept the need for supervision, and thus close cooperation with NBE is searched. This includes information and advice to NBE (and training, although this description is not well liked in the NBE).

3.6.7 Maintaining resource centre

The **resource centre** is basically a specialised library on MF and related topics (micro-economics, marketing, accounting, etc.). It is located in the rooms of AEMFI, very recently it is being substantially pushed up through IFAD funds. MF material is not yet abundant, there is clear scope to pop up the library through specialised and practice-oriented literature, including the collection of internet-based documents. These are hardly available even for the large MFI due to a badly functioning telecommunication system in Ethiopia in general and costly and difficult access to internet in particular. The usefulness of the resource centre has to be shown in the future: the absorption capacity of MFIs (education, time, specialisation) is usually limited, and special efforts must be made to address the technical staff of MFIs.

3.6.8 Industry promotion and publication

Various measures fall into this category for the promotion of MF within Ethiopia:

- The publication of a **bulletin**, the Microfinance Development Review, issued three time since January 2000. It deals with issues such as MFI regulation, wider context of MF, a member MFI profile, conferences, etc. Contributions are without doubt of a high quality. It is sold to non-members. However, the publication is irregular. A major problem seems to be the lack of contributions by authors from MFIs. Also costs are a hindering factor, the high quality style cannot be covered by fees and advertisements. In its present form, the Bulletin seems to be more of an outward oriented nature than useful for internal communication (too slow, overlap with function of occasional papers).
- **Occasional Papers** have been prepared, until present exclusively by the Executive director, on AEMFI itself (Amha 2000a), on the regulatory framework (Amha 2000b), on the experience sharing visit of MFI representatives to Bangladesh (Amha 2001), on challenges and prospects of product development (Amha 2002a), and on the role of Business Development Services in combination with MF (Amha 2002b). Again, the weakness is that for the time being it is a one-man show, although a very useful one for the representation of the industry.
- Organisation of **conferences** - two have been organised up to now, Bahr Dar in 1999 (conference proceedings published as Demeke 2000), and Nazareth in 2001 which was linked to the General Assembly of AEMFI. Two larger workshops on MF issues with more general interest (February 2000 on strengthening the network of Micro-financing in Ethiopia in Addis Ababa and July 2001 on dimensions of MFI in SSA in Mekelle) can be subsumed to this category of activities. Conferences are planned to continue on an annual and additional occasional basis. Such conferences are not only important for exchange of ideas and an occasion for informal networking, they also provide the platform for public relation (mass media) and thus strengthen the industry as a whole.
- Presentation of the MF in newsletter, radio, television. This has been accomplished sporadically, particularly at the occasion of the conferences and for particular occasions such as programme inaugurations.
- AEMFI's **annual reports** (AEMFI 2001b) are poor and not more than a table with a listing of (not really planned but from previous periods perpetuated) planned and executed activities. It lacks a systematic compilation of the development of the sector background, member MFIs, trends, and AEMFI's special role in it, which typically makes up annual reports. Thus, though internal transparency seems to be high, it is not the case towards externals.
- **Statistics** on member MFIs exist but are neither very detailed and sophisticated nor up to date. Improvement is to be expected with the establishment of the performance

monitoring programme in which the publication of statistics is foreseen half-yearly (Chapter 4.6.6) .

- **Abandoned**: The organisation of a MF awareness week is no longer in the latest plan of activities. The same holds for the production of films, establishment of a club of friends of MFI, and round tables discussions. The development of a website is no longer on the agenda.

3.6.9 Lobbying

Lobbying is a strong underlying notion and real function of AEMFI's work, as a gradual improvement of the regulatory and institutional framework. Actually, interviewed MFI leaders feel that they can, through AEMFI, influence Government decisions, although in the last series of decrees many propositions have not been accepted. The good links with Government bodies have been mentioned in Chapter 3.5.1.

However, the term "**lobbying**" is rarely used in AEMFI's rhetoric and papers. Rather, it is talked about awareness and capacity raising within the Government services. This is interpreted as a sign that the strong Government support does not raise the wish to openly demonstrate strong opposition. More importantly, it seems that within the Ethiopian context, without a tradition of civil society and independent business associations, open opposition in politics is not indicated.

3.6.10 Administration and fund raising

AEMFI's administration has been build up in line with the growing size of the organisation. The office is well established with all necessary facilities (telephone, fax, photocopy machines). AEMFI has developed or is developing several **internal manuals**, such as for Human Resource Development, and for internal procedures. The reporting (minutes of board meetings and general Assemblies) is not always complete. Many observers maintain that a solid management structure has to be build up to fortify the association against a change in the executive management.

As indicated at several occasions, AEMFI was very successful in tapping external resources. Most of the mentioned activities are funded through special **donor programmes**. Certainly, it costs enormous efforts to write proposals, administrate many separate funds and write reports according to different standards. There is no "strategic donor" yet, i.e. a donor who shares and supports long-term perspectives in a reliable way. In the future, IFAD and, to a lesser degree, Ireland Aid, will probably get there.

3.7 Intended services

Mobilising loan and equity funds for MFIs: This is part of AEMFI's objectives but not yet of the activities. If the IFAD/RUFIP programme materialises, this issue will be addressed massively: about 60 million USD are earmarked for this purpose. The funds will be channelled through DBE and some private banks (for equity), and according to the programme appraisal document AEMFI has only few connections to the procedures (IFAD

2001). The requirements are most certainly difficult to accomplish for small MFIs, which may induce pressure by these on AEMFI to continue the search for alternatives. In general, it is difficult to imagine that the role of AEMFI in fund raising for MFIs exceeds that of brokerage. First, the complete know-how as well as resources would have to be borrowed elsewhere since there is hardly any experience on the subject available in Ethiopia. Thus, at best technical assistance and monitoring could be channelled through AEMFI. Second, AEMFI has not more possibilities to guarantee loans than any MFI. Third, there is a role conflict for a MFI member-based organisation to select and supervise recipient MFIs.

Internet forum: The internet may provide a very suitable forum for the presentation of AEMFI and the Ethiopian MFI to the rest of the world. Since this is one of the objectives, it may be well worthwhile to pursue this activity, as long as it is not necessary to update it very frequently. For instance, the internal publications could be presented without much additional effort, as well as the MFI statistics. In contrast, for internal communication the Internet is not very useful due to the rudimentary nature of telephone and internet services in the country.

Network of networks: If the standards of other African MFAs are applied, AEMFI does not represent the entire MF industry. SACCOs have their own regulatory framework and will develop their own superstructures. Although for the moment cooperatives and MFIs serve distinct target groups, in a more competitive future and with diversifying services this will certainly change. The structures will most probably converge, too, because the most probable ownership development of MFIs will be towards more participation of clients - making them mass shareholders with a strong stake in the decision making not so different from the cooperative approach. In addition, some NGOs and Government organisations are still active in savings and credit operations, particularly where there are no MFIs, and will probably keep their place in the future if it becomes evident that not all poor can be covered with MF services in a profitable way (which is assumed for MFIs by their very nature as share companies), but that these services are desirable.[6] In summary, a federation of associations of the different institutional sections providing financial services to poor clients in Ethiopia, probably including the banking sector, may become necessary - as a forum for discussion, for coordinating MF activities and harmonising legislation. AEMFI has contacts into the cooperative scene, but there are **no formalised relations** yet. One idea is that regional federations could be members of AEMFI, but this would probably be unacceptable for a restrengthened Coop movement. The question of NGO MF activities is neglected altogether, for the moment it is tolerated (at best, and in areas where no MFIs are present).

Environmental safeguard policy: Within the RUFIP programme, there are concerns (as with most donors) whether the programme activities are contributing to environmental damage or risks. Thus, a negative list of activities not to be funded, as well as training and monitoring of activities are scheduled. AEMFI is assumed to play a major role in this

[6] The last few Government MF activities will probably disappear.

(World Bank 2002). This issue could also be of relevance for other MFAs because the concern an internalised in most donors' project procedures.

3.8 Economic Situation

AEMFI's only **financial statement**, which was conducted by the Ethiopian auditing company Tadesse Woldegabriel & Co for a twenty-month period ending 30th June, 2001, is summarised in Table 4. Donor funds are in principle the only source of AEMFI's **income**, other sources such as membership fees, consulting services and interests contribute only to a minimal share. **Expenditures** have been mainly done for salaries and wages and for the purchase of a motor vehicle, which accounts for 35% of the total expenditures (whereas salaries and wages account for 15% of the total expenditures). Other major cost items are expenses for the coordination of training courses (12%) and the production of AEMFI's newsletter (8%).

Table 4 Income and Expenditures of AEMFI, 01/2000-06/2001 (in Birr)

		Absolute	In % of total income
Total income		1,481,595.99 (USD 67,176.52)	100.0
Of which:	Donor Funds	1,473,675.49	99.5
	Other Income	7,920.50	0.5
Total expenditures		575,030.98	38.8

The numbers are **not** (yet) very **indicative**: Several donor programmes have started only recently, and many funds are not freely available. Thus, despite the seemingly comfortable numbers AEMFI's financial situation is not satisfying: for instance due to lack of funds the General Assembly could not take place in march 2001. Another sign is that AEMFI could not accept an ICCO proposal to pay 25,000 USD overheads over 3 years if the organisation would cover 40% in the first year and 60% in the last year.

One of the reasons for the **disproportional relationship between self-generated income and donor funds** is of course the fact that AEMFI is in its initial phase. In addition, it has made some decisions which are sign of neglect of financial self-reliance in the initial phase:

- Membership fees have not been implemented. It is only in late 2001 that it was decided to actually charge fees to members at the level of 2,500 Birr per MFI.
- AEMFI did not charge any training course fees which it coordinates or fees for other services it provides. It is intended to change this as long as donors accept it (which does not always seem to be the case).

According to AEMFI, the **neglect of search for financial sustainability** in the initial phase is at least partially deliberate. The idea was to first boost the activities of the association with external assistance, this would convince MFIs to pay more substantial fees (instead of symbolic ones of a low-activity MFA) and in addition attract associate members who are capable to pay substantial fees, too, for instance consultancy firms or NGOs who want to participate from the interesting programme or get access to a vibrant MF market. AEMFI **intends to cover overhead costs** within the next 3-5 years by fees and service charges.

4. Conclusions and lessons learned

The **Ethiopian MF sector** is rather different from those of other MFA case studies: It is very homogeneous concerning the legal form of MFIs as shareholder companies. Yet, there are two historical and strategic different camps - Government-oriented and NGO-oriented MFIs. The differences lay in the reliance on strategic partners. Both types of MFI have a commercial fur over a social heart and have no real profit orientation (for the moment at least). By clients and financial services volumes, the Government-oriented MFIs predominate. The sector is large in absolute numbers, but in sight of the very large poor population the outreach is still unsatisfactory. In particular, there are striking regional differences, which are at least partially explained by political and socio-historical constellations.

The **outlook for the sector** is bright: there is huge unmet demand both in rural and specially in urban areas; there is a supporting political environment, policy tends to be rather patronising but this role seems to fade; there is also a trend to reduce the Government interference in input on credit supply which can be transferred to MFIs (ADLI strategy); ADLI also aims at commercialising agriculture and link it to industries, both require credit support; there is a clear will of MFIs to professionalise; there is a large sector programme (RUFIP) that promises to help overcome important bottlenecks such as lack of human capacity and shortage of funds and equity; and there is a geopolitical situation which should contribute to stabilisation in the region and increase the inflow of funds. The challenges are equally enormous – reducing Government orientation will increase the costs and risks of the large Government oriented MFIs as well as increasing agricultural production credit; the ownership structure has to change in order to produce better checks and balances; spreading into new areas with bad infrastructure and poor and weakly diversified economies; managing fast growth and absorbing the important IFAD programme. Over all, the external and internal political instabilities have to be banned. Despite the acknowledged importance of MF, **there is still no national MF strategy**. Such as strategy should include cooperatives and commercial banks in order to strengthen linkages between these players (see below).

The **two different camps of MFI** have **joined in AEMFI** for several reasons: joint lobbying promises synergy effects - Government oriented MFIs having better political relations, NGO oriented MFIs having better relations with some donors; both try to mutually influence each other and shape the destiny of the sector; facilitation of information and experience sharing; opening the sector to external experience. However, going together was not self-evident, the sector has gone through a period of tension, including the competition of different MF networks. Leadership of AEMFI was an important factor for the conciliation. The Ethiopian case shows that external donor support for building MFAs is not sufficient if internal coherence is not given. In contrast, donor rivalry can be one important handicap for associative activities.

In its short time of existence, AEMFI has had **remarkable success**: it has been accepted by the Government, donors and the MFIs as a reliable partner for developing the Ethiopian MF industry. Internal procedures are increasingly settled despite rapid growth.

Apart information exchange, mutual control and lobbying, the **role of AEMFI** is particularly a coordinating one: in organising and standardising training; setting up performance monitoring system; organising the exchange with the outside world (an issue which is probably more important in Ethiopia than in other, more open societies); organising the public appearance of the MF industry through conferences, public relation work etc.

It is important to note that in comparison with other MFAs, **AEMFI is not representing the entire MF sector**, particularly the cooperatives are building up their own network. For the moment, both are separated geographically and by client groups, but that could change. A common forum, probably in conjunction with the banking sector, will be necessary in areas such as interest rates and loan ceiling settings, securities and loan recovery, deposit taking, double membership, etc. AEMFI can play an active role in constituting such platform, ideally in the frame of a **national MF strategy**, but it will be indispensable that large donors and the Government join their forces.

The question of **sustainability of MFAs** and **appropriate sequencing** to get there is challenged by the AEMFI case. Currently, AEMFI's rate of self-funding is extremely low which may reflect the early stage of the network and certainly the initial lack of dedication for income generating services. This may be part of a deliberate strategy to build up AEMFI: first reconciliate the MF sector and create institutional support for AEMFI, then create an appealing MFA through external donor support which will attract MFIs, motivate them to overcome traditional conflicts, and allow to charge higher fees both from ordinary members and from associates (consultancies, NGOs). AEMFI has achieved remarkable results within a short period, particularly in attracting donor support which could boost further if the IFAD/RUFIP programme materialises. On the other hand, the overwhelming **success of assistance acquisition** and the strong flow of donor contributions **can become a burden/hypothec**. For instance, since AEMFI started with not taking service charges, it is difficult to introduce them later at a sufficient level, particularly when they are continued to be provided by donors.

The **cooperation with donors** is another challenge for AEMFI and more generally for MFAs. MFAs are very attractive for various reasons (see Chapter 1). It is a recurrent finding that among MFA donors three types can be distinguished functionally: those small donors who have sponsored MFI members and who want to expand this experience and influence on a wider scale; those specialised in MFI assistance (WWB, CGAP, WOCCU, etc.) and some medium size donors which search for systemic support to the MF sector (among others GTZ, DFID); and those large donors who can target the entire MF sector and see and use MFAs as an important component for channelling assistance. Treating with multiple small donors is very resource consuming. A strategic partner like IFAD/RUFIP is more attractive but bears risks of vital importance. The IFAD/RUFIP programme will challenge not only the organisational capacity – for 12 of 55 activities AEMFI is "lead implementer", for 27 of 55 milestones in the general and MFI components it is "responsible authority - but also risks to overemphasise the executing and supervising role of the association at the detriment of the networking and lobbying role. A **donor consortium**, emanating out of a sector strategy, is probably a solution in getting more long-term oriented support while reducing proposal writing, coordinating and reporting efforts as well as risks of dependency. However, donor consortia have problems of their own.

In the long run it is certainly necessary for AEMFI to build up a more **stable and self-reliable financial base**. At least the core activities must be based on fees and service charges, and indeed AEMFI has already pronounced its intention to do so. In addition, an **organisational structure and culture** must be further strengthened which is less dependent on charismatic leadership. Member oriented services, which are based on reasonable business principles, could help AEMFI to stabilize its institutional structure and to satisfy memberships needs. A comprehensive strategy has to be developed for duties, rights, fees, etc. of ordinary, associate and honorary members.

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