The Amhara Credit and Saving Institution
(ACSI)

Institutional Profile, Current Status and Future Strategy

Bahir Dar
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FORWARD

The Amhara regional state is one of the regions in the country where the rate of poverty is the highest. The Federal Rural Development Strategy put very high emphasis on microfinance as a key force in the poverty reduction struggle. ACSI believes that, with the support of its stakeholders, it can successfully dispose the heavy responsibilities it is being charged with in this struggle.

ACSI is currently reaching 8-10% of the economically active poor that is looking for microfinance service in the region, and with good repayment rates over the years. Some rightly argue how microfinance can be successfully run in regions like ours, serving very poor people, with little education, limited marketable skill, engaged largely in agriculture which is little served by modern technology and for the most part dependant on unreliable climate, facing very poor infrastructure (particularly the rood network), small and fragile market, with people earning very precarious income inflows, etc.

Some of the success stories can be attributed to the shared vision, commitment of staff, starting from the board all the way down to the Sub Branch officer, who work in a learning environment and also because of the all-round support ACSI can manage from those in rural areas: government, NGOs, community, etc. We hope this will continue. The outreach attained is, indeed, very high for a single MFI, yet the large majority of the poor in the region is still outside of the reach of any modern financial services. ACSI looks forward to reaching these needy people!

This document thus clarifies many issues. It shows how ACSI starts, where it is now, what problems it faced, and the future strategy as we target to achieve the seemingly irreconcilable objectives of impact and institutional sustainability. External audit report is also attached. While the 2003 external audit is underway presently, the one that is attached is a complete audit report of ACSI's position as of Dec. 2002.

The document targets at all who wish to join hands with us in the fight against poverty and food in-security in this very unfortunate region. Constructive comments and feed backs are very welcome (at --- acsi@telecom.net.et).

Mekonnen Yelewumwosen

G/Manager

1. BACKGROUND: VISION, MISSION, OBJECTIVES

History:

The operation of ACSI is traced back to 1995 when it was initially initiated by the Organization for the Rehabilitation and Development in Amhara (ORDA), an indigenous NGO engaged in development activities in the Amhara region. ACSI had undertaken its pilot activities in 1996, and was licensed as a microfinance share company in April 1997.

Vision:

ACSI aspires to see a society in which people are free from the grips of abject poverty, with all the power determining their future in their own hands.

Mission:

Given the level of poverty in the region, ACSI's primary mission is to improve the economic situation of low income, productive poor people in the Amhara region primarily through increased access to lending and saving services. It will maintain cost effectiveness in service delivery, and integrates its activities with government and NGOs working towards achieving food security and poverty alleviation in the region.

Values and Principles:

Giving priority to full knowledge and understanding of the Complex, Diverse, and Local (CDL) realities of the poor, ACSI entertains flexibility in operation and a process of learning from practice. It fully considers rural values, economic and social settings, settlement and gender issues, while committed to play a key role in improving the living standard of the population through self-employment and dignity preserving rather than charity handouts.

Objectives:

- ***Productivity Objective***: promote agricultural and non-agricultural economic activities.
- ***Outreach objective***: poverty alleviation and stimulating the region's economic growth, giving priority to rural and remote communities, particularly women.
- ***Impact objective***: Significantly increase client's income and asset position.
- ***Institutional sustainability***: promoting sustainable financial services, both operational and financial.

Rural/Agricultural Focus: Rationale

Poverty

- Agriculture being the dominant sector in the region, providing income and employment opportunities for over 85% of the population, one can positively affect the lives of many by just improving agriculture.

- Given the poverty situation in the region, the highest ***rate*** and ***depth*** of poverty is suffered by the population in rural areas. Impacting upon agriculture and rural areas improves both aspects of poverty.

Growth

Pursuant to the ADLI strategy, enhancing efficiency in agriculture ensures national economic growth through:

- increased food security both for the industrial and agricultural employees, providing adequate food (at lower price), etc…

- increased input availability for the Industry sector (and at lower price),

- capital mobilization for investment in the industrial sector through mobilizing small saving from increased agricultural income,

- increased agricultural income provides wider market opportunity for industrial goods.

2. OWNERSHIP & GOVERNANCE

- ***Legality***: Proclamation 40/1996 requires the establishment of microfinance institutions as a share company as per the Commercial code of Ethiopia (1960), and demands that the MFIs be governed by board of directors selected by the general assembly of shareholders. ACSI has been licensed as a microfinance share company in April 1997.

- ACSI's ***governance*** structure has the following components: a) The General assembly of shareholders, b) board of directors, c) external auditors, and d) the general manager. The board is entrusted with the responsibilities of providing overall guidance and policy directives while the general manager is responsible for the day to day management of the activities of ACSI.

- ***Shareholders***: The main shareholders of ACSI are the regional government (25%), ORDA (35%), ADA (20%), AWDA (10%) and Endeavour (10%). Major donors and supporters include: SIDA, IFAD, USAID, Packard Foundation, etc.

- ***Organizational Structure***: ACSI has three major departments to implement its programmes, namely: finance and logistics, Planning and operation as well as four services, namely: audit, administration, and promotion. ACSI has a three-layered organizational structure: head office, branch and sub branch. Whereas the head office and the branch offices mainly do the administrative task, the sub branch conducts the main marketing operation, with staff directly contacting credit and saving clients: loan delivery, monitoring, and recollection and saving mobilization. ACSI has 10 branch and 171 sub branch field offices to implement its plans. Each sub branch operates as profit center. Currently, ACSI has a total of 1479 employees, over 65% are at sub branch level, having direct contact with clients.

- ***Staff Selection***: ACSI has established Human Resource Development and Administration unit with the responsibility of recruitment, selection and training of staff. New employees are trained within ACSI itself. Thanks to the strict selection procedure that ACSI follows it can be said that the staff both management, administrative and program staff have high degree of commitment to the vision of the Institution and willingness to work in a learning environment where uncertainty is likely, flexibility required and experimentation necessary.

- ***Community Participation***: Given the problem of information asymmetry on the part of the client, giving rise to ***moral hazard*** and ***adverse selection*** problem, ACSI draws on the support of the local community (the Credit and Saving Committee) to screen out those who should get the service first (based on their poverty level), and to further facilitate follow up and monitoring. Clients are also required to organize into groups, to encourage monitoring among themselves.

- ***Client Sense of Ownership***: The current effort to generate the loan-able fund from with-in the local areas has served to create loan clients' sense of ownership and prompt repayment by inculcating the feeling that what is in their hand in the form of credit is a saving mobilized from their neighbours ("*warm money"*). Future strategy is to further enhance this "sense of ownership and stake-holding through, for example, making clients shareholders, so that they become fully affiliated with the institution.

- ***The Control System***: Even with sufficient client ownership and community participation, for any MFI, a system of *internal controls* should be in place to prevent corruption and to ensure that no funds are misused. In fact internal control goes beyond those matters related directly to the accounting system. ACSI's internal control system involves establishing a strong, pro-active team actively identifying and anticipating potential risk areas and implementing strategies to mitigate such risks, while at the same time setting clear segregation of duties between, for example, back office and field tasks, and between cash handling and other functions, etc.

- Internal audit should also be augmented and evaluated by ***external audit***, in the absence of which, the Board and any external body would simply accept what management reports. Absence of proper audit eventually gives rise to lack of confidence on the part of the donor community, the public, clients, etc. Pursuant to the National Bank directives, annual audit is part and parcel of the control system.

- ***Management Information System***: For any financial institution, efficient management of financial data is a crucial task. Information on loan portfolio, financial accounting and others has to be evaluated fully, by Branch and Sub Branch and accurate, timely and comprehensive *reports* produced and provided to the different levels of users such as management, staff, board, others. The Institution so far has no computerized Management Information System to capture relevant data and to generate desired management reports. Thus, the data transferred from branch and sub branch to the head office have not been timely to ascertain the *asset position* of the Institution and to establish *performance indicators*. Efforts are now underway to establish one.

3. PRODUCTS

ACSI currently deliver four types of financial products: *Credit, Saving, Money transfer and Pension Fund Management.*

***Credit**:*

Two approaches have been advocated on the role of credit in poverty reduction. While supporters of the *income generation* approach maintain that credit should be provided mainly to the entrepreneurial poor to enable them to finance specific private income-generating activities to increase their revenues (i.e. credit can only be a "means" to develop such activities, and not an "end" in itself), proponents of the so-called "*new" minimalist* approach argue that credit programmes would still be helping the poor fight poverty by giving credit to any poor person (including those borrowing to meet *irreducible* consumption needs) who is able to repay a loan without dictating to that person how and on what the loan should be used.

- Given the very limited capacity to satisfy all the credit demand in the region, ACSI has so far been providing credit only for income generation and related purposes. Thus, the current loan products can be broadly categorized as: income generating (installment and end term), as well as asset loan. Credit for income generating activities was apparently the dominant activity so far. With in this, the installment loan product, mainly for petty trades, manufacturing and handicrafts, etc involves lesser risk for the institution as well as for the clients as loans are settled in small amounts more frequently. The Institution encourages such products. But agricultural loans, with payments coming only at the end of the term, dominates.

Saving:

ACSI provides saving services with the aim of instilling the culture of modern saving, reducing the high propensity to spend economic surplus on social and religious activities in pursuit of more efficient utilization for income expansion and poverty reduction activities. ACSI provides saving services for loan clients as well as for the public at large. There are two kinds of saving products: Compulsory Savings (exclusively for loan clients) and Voluntary Savings.

- The ***Voluntary Savings*** is in turn composed mainly of Saving deposits/pass book saving and time deposit. With a *passbook saving* account, clients receive a record book where their deposits and withdrawals are entered, so they can keep track of their transactions. Passbook savings account holders can easily deposit money and earn interest income.

Time Deposits: are the ones that allow clients to lock in to an interest rate for a specified period of time.

- ***Compulsory Savings*:** From loan clients, various "obligatory" or "compulsory" savings funds to which all members contribute regularly (in addition to their voluntary individual saving) through out their membership with ACSI, are intended to encourage savings at personal level and at the same time to create investment reserve fund for on-lending

Pension Fund Management:

ACSI serves as local agent of the pension and social security Authority to disburse pension in areas where ACSI has sub branches. ACSI has a clear organizational advantage, having offices at all *Woreda* level and even beyond.

Money Transfer:

ACSI is also involved in the business of local ***money transfer***, particularly to institutions. Whereas the demand for money transfer at individual level is also growing, particularly where the conventional bank is non-existent, involvement into such a business demands a detailed cost-benefit assessment as well as due consideration for the technicalities involved.

4. TARGETING PRINCIPLES

Given the scarcity of loan-able fund and the limited capacity of the Institution to serve all the credit demand in the region, essentially the service is delivered on a *priority* basis. Focus is thus on the poorest, particularly women, as this is believed to have the highest impact on poverty /food insecurity through bringing about improvements upon both the ***rate*** as well as ***depth*** of poverty/food insecurity. Targeting is therefore at area as well as household level and gender focused. ACSI seeks to reduce poverty by targeting financial services to the poor both *directly* (through means-testing) and *indirectly* (through product and service designed to attract the poor):

- ***Area Targeting***: Priority is given to those areas which are more food insecure. This is conducted in consultation with the *Woreda* and *Kebele* administration. Thus, within a given *Woreda,* the most food insecure *Kebele* (suffering from "chronic" food insecurity) is given the priority.

- ***House hold Targeting***: ACSI utilizes a combination of poverty assessment and targeting methods.

  - The loan size, as one of the targeting tools, has been limited to a maximum of 5000 Birr. While the loan size ceiling is relaxed currently, the dominant principle is still not ignoring serving the poor, looking for smaller loans for income generation.

  - As a Rapid Assessment (RA) method, priority is given for those with one or less oxen values, with possession of one ox serving as the local poverty line.

- A sort of Participatory Wealth Ranking (PWR) is also carried out, whereby representatives from the community (Credit and Saving Committee) exercise further rankings of those who should be first beneficiaries of the services.

- ***Individual Targeting:*** Generally, ACSI lending programme essentially targets the *productive poor*: those if appropriately assisted could by themselves create the activities that could enable them to get out of poverty -- the entrepreneurial poor. This derives from institutional values and principles. Specifically, the individual targeting criteria are:
  - The individual looking for credit must be in the productive age group,
  - the productive poor, who is already engaged (or ready to be engaged) in some productive activity, but is handicapped due to lack of capital,
  - good reputation in the community about his/her general characters, honesty,
  - mentally healthy,
  - free from other debts, from government, cooperatives, …
  - permanent residence in the *Kebele,*

- ***Gender Focus:*** Special focus is given to women as they are the ones who most suffer from all kinds of poverty and deprivation, and at the same time improvement in women's income can have immediate impact on household poverty and nutrition. Women are encouraged to start some business activities so as to improve their *bargaining power* within the household through enhancing their "breakdown position". ACSI has a target of delivering at least 50% of the credit service to women.

5. OPERATIONAL MODALITIES

The objective of maintaining good portfolio quality can only be guaranteed if one follow demand-based, quality lending products that maximize value to clients. Thus the Institution always strives to provide diversified lending products with suitable terms and conditions in terms of: *loan size, repayment period, repayment frequency, collateral, transaction cost*, etc. The modalities, loan terms and conditions would have to be such as to fit in the very circumstances of the poor, while ensuring full repayment:

- ***Group lending***: Since the poor shall not be required to avail any collateral, candidates are required to exercise a peer group self-selection and organize groups for the purpose of sharing a mutual loan repayment guarantee. ACSI follows the Group Guarantee and Lending Model (GGLM). But, following clients' real needs, the institution is introducing *individual lending* methodology, while also assessing the possibility of the *Village banking* modality.

- ***Loan size***: The very poor would have no business experience. The best practice to introduce the very poor to the business world is to start with small, but surely *progressive* loan size between loan cycles, as the client is expected to gain in business experience through time.

- Based on current policy, a client who moves from the first cycle to the second can expect 100% addition to the first loan. Like wise, unless in very special circumstances, he/she can expect a maximum addition to preceding loan of 75% in 3rd cycle, 50% in 4th cycle, 25% in 5th and subsequent cycles. The maximum first-time loan a poor client is entitled to so far is Br. 750, but revisions are being made to accommodate new loan products.

- ***Repayment period***: The smaller the loan size, the shorter would be the repayment period. While this has for long been limited to one year, pursuant to the National Bank directives, it is relaxed to two years, and up-to five years for specific loans.

- ***Repayment rhythms***: Frequently settling part of the borrowed money reduces the risk of repayment both for the client as well as for the lender. Though this will depend on individual project activities of clients, installment based repayments are encouraged.

- ***Saving:*** The objective of the whole exercise is to help clients to gradually build up income, improve their asset position and eventually be able to run their business from own sources, with out requiring credit. Thus, potential clients are required to start setting aside part of the income from business as saving with ACSI.

- ***Simple Procedures*** Given the high level of illiteracy among clients, maximum effort is made in order to avoid cumbersome appraisal process that require sophisticated project proposal and other written applications that conventional banks require. However, clients need to show that they have real business plan (new or on going), for which they need to feel in a simple (one page) format, indicating the loan amount, the input cost, output value, net return (profit), etc. On spot check is also made by the credit officer at the enterprise site, and further information is sought from the Credit & Saving Committee about the credit worthiness of the potential client.

6. OUTREACH

Delivery Level

The main task in microfinance is to reach economically active poor people and help them escape poverty. In the region, the rate of poverty, particularly in rural areas, is estimated to be very high, though there are some revisions presently. The CSA data suggests that of the economic age group about 80.63% are economically active and ready to be employed at the going wage rate if one were available. Of this section of the population, regional-wide market survey to assess the credit demand of these poor section of the population indicated that 84% actually demand small credit to start/expand business. This provides that in the region alone, there are about 2.88 Mill poor entrepreneurs looking for small credit.

- So far (Dec. 2003) a total of over 482,000 poor people living in all *Woredas* and 1999 *Kebeles* (villages) (65% of total) have been served from the "regular" credit operation of the institution with a total of Br. 749 Mill. disbursed. Activity-wise, the large proportion of the loan (over 65%) has been utilized on agriculture and related activities, and the remainder on petty trade, processing and manufacturing and related activities. Some of the specific activities financed so far are: agriculture, fattening, bee keeping, petty trade, embroidery, weaving, blacksmithing, handicrafts, pottery, wool making, tannery, electronics, etc…

- Not only have poor clients been enabled to start or expand their business activity from institutional lending but also they have been encouraged to build up small modern saving from increased income so that eventually they can run business from own fund without looking for credit. ACSI currently provides its saving services for over 443,365 clients (including credit client, public savers, as well as institutions). So far the *net saving* mobilized is more than Br. 128 Mill., which can finance a good portion of outstanding loan portfolio.

Outreach Aspects:

- ***Worth of outreach to clients***: This has been one of ACSI's top priorities. The amount of disbursement (loan size), the term to maturity, size of installments and other terms and conditions have been suited to demand. Clients therefore value the service highly as demonstrated in surveys and various client workshops. Assessments are, however, in order to investigate level of *willingness to pay* for proper product costing.

- ***Cost of Outreach to clients***: This is the sum of *price costs* and *transaction costs*. Price cost (interest) is undoubtedly low. Transaction costs, non-price costs for both non-cash opportunity cost (such as time to apply for a loan) and indirect cash expenses for such things as transport, etc, have yet to be kept at a minimum. Given the wider and difficult geography in the region, as well as the risk involved in transporting live cash, delivering the service at locations close enough to clients has been nearly impossible, though efforts are being made towards that end.

- ***Depth of Outreach***: The fact that ACSI is working in rural areas reaching over 65% of rural villages, targeting very poor people owning one oxen value or less, or poorer by other local criteria, and giving priority to women, demonstrate the depth of outreach. Poor people start with small loan, and this is currently fixed at a maximum of Br. 750 (at policy level), which moves upwards gradually. For comparison purpose, however, the level of ***relative poverty*** of ACSI clients need to be further ascertained with reference to regional GDP per capita and other indicators.

- ***Breadth of outreach***: ACSI's expansion to reach many clients has indeed been dramatic. But, given the number of economically active people outside of the reach of the conventional financial service, the outreach is clearly minimal. It is only 8-10%, taking only the number of the very poor. Pursuant to Federal Rural Development strategy and National Bank directives, services will also target the less poor and the vulnerable non-poor, thus ensuring *economies of scale*.

- ***Length of Outreach***: The ability to survive without looking for donations or other subsidies matter for MFI sustainability. This requires ensuring profitability and full repayment. ACSI can maintain a repayment rate of over 98%. Yet, Institutional sustainability will have to be ensured through establishing market-based interest rates, enhancing efficiency and establishing consistent structure of staff incentives.

- ***Scope of Outreach***: Unlike in other countries, Ethiopian MFIs, including ACSI, can mobilize public saving. Further effort to enhance *scope between products* to include insurance and others, and *scope with-in products* (e.g. terms and conditions, individual/group loan, etc…) is in order. Efforts are underway to maximize benefits from economies of scope by integrating microfinance with health and education.

Overall Impact:

- The ultimate objective is to help the target house hold to improve income to a level that can command food that provide the 2300 calorie, and also to gradually build up asset. The available *best practice* suggests that poor micro-finance clients will be able to escape poverty (food + non-food) after five year of joining an MFI, and will be in a position where they no longer need credit from the MFI after eight years.

- No detailed assessment has been done in this regard. But, sample surveys conducted at various times indicate that clients are really benefiting: increased food security or *reduced vulnerability*, constructing/maintaining house, able to send children to school, able to buy additional ox, and other benefits including: experience in cash management, no disposing off assets, not having to go to the money-lender, increased acceptance in the community and household, etc. A good achievement has also been registered in instilling the culture of modern saving, reducing the high propensity to spend economic surplus on social and religious activities in pursuit of more efficient utilization for income expansion and poverty reduction activities.

- Moreover, the ability to manage small business, and the business skill that is developing from taking continuous loans among many poor clients is really laying the ground work for the emergence of the future big business men that the region is looking for national sustainable growth. In this respect some would like to call MFIs "*incubators*" of future big entrepreneurs.

7. FINANCIAL PERFORMANCE

Profitability:

- ***Operational sustainability:*** Income statement indicates operating profits since some years ago. ACSI has now achieved *operational sustainability* indicating the ability of the institution to cover costs of operation with internally generated income. ACSI has also achieved ***Financial Sustainability*** taking into consideration such subsidies as: inflation, cost of fund, in kind donation… Though a good repayment rate of over 98%, and a reasonably good case load (particularly considering the poor rural infrastructure) has been maintained, achieving financial sustainability has been a real challenge, and efforts should still continue to maintain and strengthen company position to be able to operate under a more competitive situations.

Efficiency:

- ***Administrative Efficiency***: Measures the amount it costs an MFI per unit of money to administer its credit and saving services. ACSI's Administrative Efficiency, determined by computing administrative costs (excluding financial costs) as a percentage of average net portfolio, is about 7.8%, meaning that it costs ACSI less than 8 cents to lend Br.1. This is a lot of improvement over the years, though there are rooms for more achievements.

- ***Labour Efficiency***: The case load, calculated as the number of active loans per loan officers at S/Branch office, is about 324, still approaching the industry average of 350. Yet, given the regional geography and the infrastructure (particularly the road net-work), this looks reasonable though efforts should continue (with improved transportation facility, etc), particularly in areas which are working below ACSI average. Further, ACSI benefits from "*economies of scope*" since it also mobilizes savings as well as pension fund management and others. Costs can be further minimized by introducing the *Village Banking* and other modalities and collaborating with cooperatives and others as market outlets.

Loan Portfolio Analysis:

- ***Repayment rate*** stands at over 98% for most of the years in ACSI's history. ***Portfolio At Risk*** (PAR), which compares the remaining outstanding balance with at least one installment overdue to the total loan portfolio, currently stands at about 3.7%. Yet, the PAR may not tell the whole story about the portfolio risk for an MFI with a good portion of agricultural/end term loan. Moreover, there were no ***write-off*** made, but this does not mean that good quality portfolio is being maintained. Management has now already decided to introduce it at a policy level.

Liquidity Management:

- Total deposit (net saving) is becoming an important component in ACSI's total asset, currently being equivalent to 44% of total assets and 61% of outstanding loan. Ratio of Liquid Asset to total deposits is 46%, and is well above the 20% Minimum requirements of the National Bank of Ethiopia. Inability to meet withdrawals of savings is bad. However, over liquidity is just as bad as it can only be achieved as a trade-off with profitability. Inter-branch lending mechanisms with appropriate charges have been introduced by ACSI. This is to be supported to channel over-liquidity at one location to one where it is needed and also bring home the need to account the costs associated with the use of such funds and refine the results of each branch.

Interest Rate Analysis:

- ACSI has for long maintained a 12% declining rate. This was highly subsidized to cover costs. Four variables go into the calculation: Administrative Expense (AE), Loan Losses (LL), the Cost of Funds (CF), the desired Capitalization Rate (K) and Investment Income

(II). Based on these variables, it has been revised recently to 18%. The strategy is to also diversify interest between geographic areas and between products…

Capital Management /Solvency/:

- ***Equity multiplier:*** The capital structure becomes an important indicator when growth is envisaged. Growth in equity further strengthens MFI position as a deposit taking institution, and the capital structure must be adequate enough to sustain a reasonable level of business risk. ACSI's total assets were financed by equity capital to the extent of 17.5% (equity multiplier). While *paid in capital* and *donated equity* have been stagnant over the years, *retained earnings* have shown some improvement as a result of improved efficiency and relevant measures. Further efforts should continue to enhance the share of capital in total asset.

8. FUTURE STRATEGY

ACSI will strictly pursue a strategy that will ensure provision of financial services that are *valuable to clients* while maintaining *institutional sustainability*. This would be made possible through diversification.

Product Diversification

- ACSI is providing both credit and saving services, and may be able to provide insurance services in a not-too-distant future. The credit service is currently limited only for *income generating* activities. This is mainly motivated by the fact that the loan-able fund as well as institutional capacity is still limited compared to the demand for small loans in the region. Depending on existing capacity, ACSI is pilot-testing provision of ***asset loans***, particularly for housing construction. Introduction of diversified terms and conditions, particularly as ACSI's services accommodate people seeking higher business loans, would be an on-going process. Detailed procedures will also be worked out to deliver credit services for water-point construction for groups organized under the Water & Sanitation Cooperatives (WATSANCOs).

Client Diversification

- Pursuant to the National Bank directives, ACSI will reach out to a broader clientele of "the working poor", both self-employed and employed. The National Bank directives has allowed MFIs (which have fulfilled certain requirements) to lend above the 5000 limit. Thus an MFI may lend 20% of its previous year disbursements at a maximum loan size equal to 0.5% of its equity. The required capacity, particularly in terms of appropriately trained manpower, must be in place as ACSI gradually moves towards providing ***microbanking*** services. New lending modalities also need to be developed to implement this.

- Aware of the fact that even for the employed and ***salaried people***, enjoying "stable" income (e.g., rural teachers), some don't earn enough to plan for their future or to set aside reserves to tide them over during unemployment, sickness or other unexpected events, ACSI is also trying to extend part of its loan to these people, provided they present clear business plan, ability to undertake the planned project (e.g in-terms of availability of adequate labour), and no diversion of the loan fund for third party (e.g re-lending).

Methodological Diversification

- ***Individual lending****:* While only the group methodology is being practiced, there are those who are rejected from the group, or themselves prefer to borrow on individual bases, though they may not have the material collateral of the kind acceptable by the conventional banks. One potential mechanisms to satisfy this section may be the modality highlighted in the FDRE: Rural Development Policies and Strategies, whereby "individuals" may have access to MFI credit, without having to form "groups", on account of their production stored at cooperatives which serves as collateral. Closer cooperation between MFIs and cooperative societies would be highly called for to successfully implement this. On the other hand, for those with higher loan size and able to offer the conventional collateral, new lending modalities need to be developed.

- ***Village Banking:*** ACSI doesn't utilize the *Village Banking* methodology whereby it lends not to individuals or groups but to a community-based organization, which in turn acts as an informal lender to groups. While this methodology has the obvious advantages of reducing Institutional cost in terms of reducing staff involvement in selection, training and loan approval to clients (transferring such costs on to the villagers and their chiefs), it requires relatively advanced level of educational standards on the part of the villagers, which is scarce in rural Ethiopia. Whether "cooperatives" can act as village bankers, at least in some areas (as proposed in the FDRE: Rural Development Policies and Strategies) need to be investigated more closely.

Credit With Education

- The delivery of credit and saving services alone cannot be sure way out of poverty for the majority poor. Thus, initiating strategic alliance between, among others, the mutually supportive but operationally separate activities of micro-finance and health education (family planning…) services would allow each to do what it does best, yet benefit from each other activities. The present operational arrangement of ACSI and ADA provides one good ***opportunity*** to deliver such services in a coordinated manner. The two organizations operate in same areas, both giving priority to women -- the micro-credit service is offered by ACSI and the family planning is offered by ADA to the same people in need. The strategic alliance would provide great opportunity to deliver an integrated service to poor people in a most cost-effective manner.

- The ***Youth Microfinance Programme***: The objective of this particular project is to improve the economic situation of low income productive young people through opening increased access to lending and saving services. Special focus is to be given to young women as they are the ones who most suffer from all kinds of poverty and deprivation.

9. CHALLENGES & RISKS

Some of the Challenges faced so far and that may also continue to be faced in the future include:

- ***The Skill Problem:*** The credit is normally distributed to those in the "productive" age group yet education and ***skill achievement*** is very low. The majority of activities financed by ACSI credit concentrate on traditional business areas like agriculture, petty trade, etc, with very little diversification. Business development Services (BDS) are highly underdeveloped in the region as a whole, and those that are available (The agricultural package programme, the Adult Skill Training Centers, REMSEDA, ADA skill training centers, etc) provide very limited skill training, in few vocational fields, and are concentrated in the urban areas or in already "surplus producing" rural areas. Their diversification and expansion to the food insecure areas should be an urgent task, as this would determine effectiveness of the programme.

- ***Packages*** are useful mainly to disseminate agricultural technology. Whereas such technologies help ensure *food self sufficiency* in a certain area, they normally are taken-up by those who can take risks and venture into such new technologies. These people are normally the better-off. These services are very weak in many areas. Moreover, whereas the very poor (the most food-insecure) can also be expected to benefit from the spill over effect of such endevours (i.e from the increased food self-sufficiency in the area and possibly also from lower food prices), as well as from its demonstration effect, this doesn't directly address the food security position of very poor households. Appropriate skill development technologies, both in agriculture and other fields, that fit in the very circumstances of the poor are very much lacking.

- Some feasible ***non-traditional activities*** which are not land based (thus more fitting in food insecure areas), and environmentally friendly, utilize local resources and indigenous knowledge, enjoy less competition and more market demand are rather frowned at, and not demanded. Recent survey indicates that such activities (like blacksmithing, tannery, weaving, pottery, embroidery, other handicrafts) are indeed relatively more rewarding but the total volume of lending that goes to these sectors are very low, suggesting a serious cultural taboo against such activities. Some promotional activities may be needed.

- ***Women*** are "allocated" some portion of the credit, but a good portion of it is destined to their male counterparts, violating the institutional objective. This partly has to do with the fact that women are still highly handicapped with lack of any business skill, much more than their male counterparts. On the other hand, however, this may have also to do with the "wrong assumptions" that planners of micro-finance services had on the ***available time*** that women have. Planners forget that women are fully engaged in domestic works through out the day, and have little to afford for such business activities. Appropriate ***labour saving technologies*** is largely unknown even by the standards of developing countries. Access to clean water, grain mills, roads, energy saving devices etc., is extremely limited….

- Production is thus often un-diversified. The largest portion of the credit goes to few activities like agriculture and petty trade. Similar products are therefore offered on the nearby ***small market***, which easily saturates. The risk associated with lower price level is indeed high, which threatens profitability and repayment capacity on the part of the client -- hence the recent down fall of agricultural product prices. The monetary income of the client is therefore not only low, but also precarious and largely dependent and climatic conditions.

- ***Interest Capping***: Rural credit in the country implies agricultural loan. Providing agricultural loans, in a condition where the agricultural activities are mainly rain-fed as well as little served by modern technology, involves not only higher risk of repayment but also higher cost of operation. Providing rural credit in the context of the region, where the infrastructure is so poor, and with little logistical provisions (motorbycs, mules,…), and recollecting such small loans from poor people, with irregular income sources is nearly impossible. This is more so if the lending interest rate is kept equal to that of conventional banks. The trade-off in going to rural areas to lend for many poor people with very small loan size at a scattered settlement is therefore that one has to forego the higher earned income that would have been possible by offering the loan in towns, for people requiring bigger loan sizes and who can offer material collateral. In other words, one has to forego attaining sustainability sooner. Thus, if the MFI is to offer its key financial services to remote, peripheral rural areas (with non-existent, inadequate or defective infrastructure: road, electricity, telephones, education/health system, etc..) to poor and marginalized people, with smaller loan sizes and hence high transaction costs, interest rate capping need not be a bottleneck.

- ***NGOs involved in micro-finance*** delivery without a license. Often, their system of lending involves some irregularities including subsidized interest rate, mixing business with charity and not following strict business discipline in the treatment of delinquency etc, which would make clients dependent on such operations and would potentially endanger the healthy operation of the whole micro finance industry. In fact, if such NGOs do not follow strict business discipline and price their services properly, the "subsidized" fund pumped in the economy will affect the economy as a whole. For example, a producer that has access to subsidized credit can price his product lower than the one who borrowed at market interest rate, and thus the latter will be placed at a disadvantaged position. The cumulative effect of this and similar distortion will have a disastrous effect on the whole free market system. Such operation must be taken care of by relevant government organization.

- ***Institutional Capacity:*** Given the geographical set up of the region, and the poor physical infrastructure (particularly the rood network, 80% inaccessible during rainy season), the *inadequate supply of* ***transportation facilities*** is so serious that operation in the region as a whole, and particularly in rural areas, has proved to be a very problematic task. This is more so for those involved on a daily financial transactions. The task in micro-financing activities as undertaken by institutions like ACSI is such that not only should one identify and disburse loans to the right client in isolated remote areas, but also one should ensure full repayment through daily monitoring and follow up of each client, with very low loan sizes. Very small savings have to be encouraged and mobilized from same poor people.

Live cash has to be transported from one location to the other. And such activities often involve a door-to-door service.

- The need for developing suitable financial products that satisfy the growing and diversified need of clients, introducing reasonable flexibility in the terms and conditions of existing financial products, as well as providing services expected of a micro-bank, requires more adequately qualified and ***trained manpower*** at Head Office, at Branch as well as at S/Branch level than is currently available. However, the current ACSI capacity, in terms of the size as well as the quality of manpower, is not such as to effectively discharge such increased responsibility in the industry. The majority are 12 grade graduates or below. Only some have diplomas and degrees, particularly at the head office. While few have some exposure, the majority have gained their training in-house, and acquired skills from practice.

10. ANNEXES

- **Performance Reports**
- **External Audit Report**

A. Regional Distribution of Institution

	Item	1995	1996	1997	1998	1999	2000	2001	2002	2003
1.	No Branch Offices	6	10	15	21	15	15	13	10	10
2.	No Sub branch Offices	-	-	67	132	157	162	162	162	171
3.	No Employees per Branch	10	7	27	37	68	74	90	131	148
4.	No Loan Officers per Sub Branch	-	-	3	3	4	4	4	5	5
5.	Total Staff	57	67	410	785	1014	1110	1176	1308	1479

B. Credit Outreach*

Indicator	1995	1996	1997	1998	1999	2000	2001	2002	2003
Kebeles Covered	-	-	-	765	1,259	1,456	1,559	1,767	1999
Kebeles in Region	3077	3077	3077	3077	3077	3077	3077	3077	3077
% of Kebeles covered	-	-	-	25%	41%	47%	51%	57%	65%
No of Active crdt Client	672	7,799	38,190	68,580	107,143	131,330	152,565	215,970	288,681
% of Females	33%	35%	43%	50%	49%	45%	38%	33%	30%
Served Credit Clients	672	7,799	46,647	86,652	146,398	206,061	262,880	363,681	482,083
% of Females	33%	35%	50%	50%	49%	46%	43%	38%	34%
Amnt loan Disb-Cum	271,590	5,244,296	33,869,507	75,759,799	141,569,332	236,255,858	352,296,755	516,420,983	749,214,624
outst regular loan balan	266,599	3,402,223	20,786,965	28,864,903	46,316,966	71,211,382	94,970,748	140,696,913	210,355,340
Amnt loans Disb/yr	271,590	4,972,706	28,625,211	41,890,292	65,809,533	94,686,526	116,040,897	164,124,228	232,793,641
No. Loans Disb-Cum	806	9,359	55,976	117,861	199,733	330,568	485,007	691,500	933,672
No of Loans Disb/yr	806	8,552	46,618	61,885	81,872	130,835	154,439	206,493	242,172
Average loan size/yr	-	581	614	677	804	724	751	795	961

*Excluding Input Loan

C. Saving Mobilization

ITEM	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total net saving mobilized	13,254	536,653	4,915,137	17,721,796	33,729,344	55,479,819	84,874,799	99,045,737	128,649,146
Total number of Net Savers	672	7,799	46,647	64,020	137,928	221,061	315,879	416,841	443,365
Individual Savers	672	7,799	38,190	63,031	136,939	202,560	294,891	306,847	433,668
Individual voluntary Savers	0	0	0	6,303	18,298	34,917	51,199	64,333	101,027
Deposit to loan ratio	5%	16%	24%	61%	73%	78%	89%	70%	61%

D. Portfolio Quality

	ITEM	*2000*	*2001*	*2002*	*2003*
1	*Loan loss Reserve rate*	0.04%	0.39%	1.31%	0.72%
2	*Delinquency > 30 day*	3.1%	2.8%	4.2%	2.8%
3	Portfolio at risk >30	na	na	4.7%	3.7%
4	Repayment rate	98.7%	98.9%	98.4%	98.8%

E. Profitability

	Item	*2000*	*2001*	*2002*	*2003*
1	Return on Assets	0.03%	-0.67%	2.33%	6.11%
2	Adjusted Return on Assets	-2.83%	-3.35%	1.58%	4.39%
3	Adjusted Return on Equity	-24.86%	-35..09%	14.81%	30.02%
5	Operational Self-Sufficiency (including cost of funds)	100.33%	92.98%	123.71%	177.54%
6	Financial Self-Sufficiency	73.66%	72.42%	115.20%	146.37%

F. Efficiency

		2000	**2001**	**2002**	**2003**
1	**Administrative Efficiency**	9.2%	8.6%	9.4%	7.8%
2	**Operational Efficiency**	13.2%	13.0%	14.6%	11.2%
3	**Administrative Cost** per av. no active loans	68.76	67.00	69.85	55.44
4	**Personnel costs as % of total admin. costs**	68.4%	64.0%	68.0%	72.7%
5	Number of **active loans per staff member**	118	130	165	195
6	Number of **active loans per loan officer**	205	213	257	324

EXTERNAL AUDIT REPORT