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ENHANCING ECONOMIC PERFORMANCE OF MICRO AND SMALL ENTERPRISE
THROUGH MICRO FINICAL SERVICE IN ETHIOPIA.

A research paper submitted in partial fulfillment of the requirement to the
degree of Bachelor of Arts (B.A.) in Business Management

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Abstract

Enhancing economic performance of micro and small enterprise through micro financial service in Ethiopia has the problem of finance or credit. And others like marketing this is happens because of less effort made by international non governmental, micro financial institutions and the government bodies and policy makers to help clients to become self sufficient.

The objective of this study is to identify the basic causes of low income generating activities and its impact to overcome development problem of the country. The study was conducted through interviewing the concerned bodies of governmental organizations, micro financial institutions and International non-governmental organizations. Also questionnaires were being distributed to clients thus analysis of the data was made by descriptive analysis more over this paper has an objective of providing base line information for those governmental bodies and all other users and others who need it for further resource.

I. Introduction

The issues of micro financing activity have received a great deal of attention as a priority area that are crucial for stimulating economic growth in both developed as well as developing countries. There has been a substantial growth in both public and private interest in the development of micro financing in the last few years particularly in the developing countries and also throughout the world.

To day we found that these area have stimulated so much interest among donors, agencies, government, Non governmental organizations, policy makers and development analysts. The extent that all are very much concerned with the promotion and development of small enterprise like in all areas of development the recognition given to the role of viable small business sector in development has fueled debate as the most efficient and cost effective way of promoting these sectors.

Most of Ethiopian people live below poverty line. The government of the country ~~all~~^{alone} one can not solve all of the problem of the society and can not bring development in the country because the high birth rate in country and weight the slow growth of the country economy the cooperation of the government in the society is very important to bring changes in the livelihood of the society. Even if the two activity of small scale sectors has been neglected for long now it shows a little improvement since following the country shift to marketed economy the government as well as non-governmental organizations gave better attention. These shift to marketed economy system would mean the strengthening of the private sector which would faster the development of small enterprise in Ethiopia as they constitute the majority of the sector over the last few years various conferences, work shops, seminars and training etc. have

been conducted an small enterprise micro enter prices have availed them selves with some access to finances through small credit from some access to financial informal sources. Many non government organizations are new diverting there interest from relief activities and trying to support a gross root development enter praise commonly could in come generating activity or micro enterprise which serves a school of entrepreneur - ship for business men haw can think of investing and raising the size of their capital (or no capital at all) to use it proofing with giving long with out collateral and in response they take the principles with interest from beneficiaries.

Many recent researches show that helping micro and enter praises start building viable productive business in a key economic development strategy for countries like Ethiopia. Studies shows that the economically active poor in Ethiopia have potentially vegvires finical services are about S.S million colt of these only 8.8% of the demand has so far been meet by micro financial institutions in the country (mekiet micro financial institutions, 2000). Even if the need of micro financial activity is un questionable by engage poor Ethiopians in economic activities such as local food and drink preparations shoe brush, production metal works waving, petty trading and personal services such as hair dressing and similar activities even all governmental and non-governmental bodies believe that it is the most problem solving measures to the Ethiopians problems specially poor women in this country in this country, but until now they work little when we compare from it's advantages. The government didn't pay much attention to these sectors even some development activities like craning the role of non governmental organizations like aid for daily food support to transfer them to becomes self sufficient or to be come independent from any kind of aid which lead our peoples to become hand capped also non governmental organizations gave much attention to other programmers like health. Education and so an also the beneficiaries didn't have enough knowledge about micro financing they also have fear of credit which also have an interest of mostly 13% annually which is greater

than the interest of formal bank that is 18% annually which is difficult to pay to most of clients and which lead them to bankruptcy.

Enhancing micro financing activity in Ethiopia must be a national movement a financial institutions need to be oriented to be come user friendly to government policy makers and both with international and local non governmental organizations also the beneficiaries must, educated how to participate in these sector beg and that the society at large need to be provide with massive and substantive orientation on these sectors. In short we have along way to go in the area of micro enterprise and promotion and development of micro financing institutions in Ethiopia.

ii. Objective

The purpose of these study is to give a conceptual frame work and back ground of these complex micro financing sector and disco use some important issues that need to be looked into including some of the prominent impediments to entrepreneurship in order to the contribution to increase clarity.

In the same time the objective of these study is to identify the basic cause of law in come generating activities for poor Ethiopians specially women's. Which focuses on providing credit service to micro and small business operators with fissile and viable project. So mob lizing saving using different techniques so that the client or beneficiaries will be enable to gradually brake the vicars' circle of poverty. And improve their business potential. This facilitates capacity building programmers based on the need of clients. So that they can generate adequate income for them selves and for their families By identify the key constraints affecting micro business development and propose some promotional measures to be adapted to facilitate the development of these sectors and to create a wariness a many society and alert the government to words realizing the immense importance of the micro business sector gradually they reach operational and financial sustainbilty that event vary contribute to words the restoration of their dignity respect and power of decision making at different levers.

III. Literature Review

MICRO and small enterprise should have to participate in investment activity and able to bring change in the community in which it established. These sectors characterized by highly diversified activities, which can create job opportunities for a substantial segment of the population. This indicates that the sector is a quick remedy for unemployment problem. To curb employment problem and to facilitate the environment of new job seekers and self-employment, a direct intervention and support of the government is important.

In most developing countries medium and small enterprise by virtue of the size, location and capital to generate employment have proved their power full people affect for rapid economic growth. The sector is also described as a natural home of entrepreneur ship .It provides the local environment-enabling entrepreneur to exercise their talent to the attainment of their basic needs at list (A.A.U 1998)

Banks in Africa have never set a side own support of these sector must banks have not disguised their dislike of the role. They are called upon to play in administrating their funds but when they do accept these roles they execute them using traditional banking practice. They render services through over drafts that loan (C.B.E 2000)

Banks over drafts are easiest short-term credit arrangement which can benefit costumes. They are normally for fixed financing limit which can be extended by mutual agreement and are paid by interest (in the out standing daily balance must small enterprises specially in micro enterprises sub sector falling to get access to this facilities for several reasons first in order to get regular over draft faculties customer must have a regular maintaining income while can be used to determine the appropriate fencing units must of small enterprises luck this certainty due to frequent cash flow problems second limitation is that in business financing over draft facilities be based on daily or monthly working capital

requirements must of these sectors have no clear view of their optimal working capital needs.

Terms loans are short medium or long term loans which can range from three months to twenty five years depending on the agent he intended borrower. These are more complicated to this sector. First they have high transaction profiles and lasts. The loan agreement to follow standards formats drawn and attached by the practicing lawyers. The second and major obstacles is that short, medium and long term loans can any be secured against fixed assets large companies and registered cooperatives have provision for debentures charges and other type of securities which can be based on stack and shared in addition to fixed assets small sectors. Lender from giving long-term loans to UN secured borrowers but in any case short-term credit is more expensive than long term credit.

Main stream banking institutions can not continue to support small sector while training to operate commonly. Financing through small enterprises development non-governmental organizations credit associations banks and cooperatives societies remain ones one of the few channels for credit to this sector.

As an alternatives in addition the amount of contribution by the member example the sector should be increased with regarding to their income all these sources help the sector as a sources to start it's activities.

In all the successful economies medium and small enterprises are seen as an essential spring board for growth job creation and social progress at large micro financing as a small and medium enterprises sector are seen as an important forces to generate employment and more equitable income distribution to activate competition explicit new market enhances productivity and technical change and through all of this stimulate economic development

banks and finding it more difficult to address the need of part time and or small clients they still remain the primary sources of credit.

Experience from other developing countries like India reveals logical sequences in the establishment of support work taking in to account the significant contribution of these sector to the national economy the government is committed to provide all relevant assistance to medium scale enterprise.

The government therefore, will understand for these sector development of awareness creation and commitment to goals will include the responsible agencies public sector, officials at federal government institutions active assistance's by the government will be provided to help some business to overcome the various constraints to their developments. This sector if they enter into business need to be equipped with the business tools which to build their commercial features. Therefore, in addition to creating favorable legal environment for the sector programmed to help this business to overcome the specific commercial obstacles they face and exploit available opportunities efficiently. By launching such a package support program the government will be in a position to take a decisive action to stimulate the development of the sector (C.B.E, 1994)

VI. Problem statement

In General speaking the issues of micro Financing has become the very common issues all over the world specially in developing countries like Ethiopia to develop and grow an economy.

Even if the need of these sectors are unquestionable it has not develop still now because the micro financial institutions have lack of funds which they get from either international non governmental organizations or share holders. More over most international non governmental organizations support other service giving sectors like education and Health activity specially to eradicate the transmission of HIV AIDS but studies shows that any people before satisfying his and basic need don't bother to other need including his health so to over come any change the living status of the peoples must be changed these will be changed by enhancing micro finical activities.

Besides the clients also have great problem first to get the credit and the second is to return the loan. And they have a high interest rate even more than the formal banks because they do not have any collateral to get the credit from formal banks. They also have a problem of market and infrastructure facilities so all the concerned bodies like government, micro finical institutions and international non-governmental organization will give much attraction to these sectors.

V. Material and Methodology

5.1 Material (DATA)

The survey covers beneficiaries international non-government organizations, Local non-governmental bodies with in Addis Ababa. Addis Ababa was selected because of the fact that it is the largest city and mostly its where informal trade is must pronounced. Owing to various factors one of the major factor identified is migration of rural labor forces to Addis Ababa to seek employment however, since to migrate labor forces lack of skill acquired informal education. There probability of getting employment in formal sector is minimal thus they are obliged to join the informal sector for survival .So the improvement of micro finical activity is unquestionable to enhance these sector. Because formal banks can not support small sectors to get alone they always grantee collateral even they didn't have any thing to eat. The share of Addis Ababa to small enterprises was 39.2% of the total participant in micro enterprise activity followed by Oromia 28.9% and Amhara 19.3% the remaining 12.6% is from Tigray Diredawa and Harare region (waldy Amhara 1997) That is why we select Addis Ababa to come our study area to minimize the problem of these sectors.

Some of the indicators construing the micro fiancé sector in Ethiopia are

- **Access to capital and credit** : The informal sector enterprise in Ethiopia the must serious obstacle to doing business is that of raising investment capital and lack of sufficient Loanable funds and facilities.

The Banking institutions have relevant to provide loans to small scale entrepreneurs most of whom are unable to provide adequate collateral for loans. This, there for hampers the creation of new enterprises and impedes the growth

and survival of existing small scale enterprises. Hence under financing is a prominent features other organized source of finance other than traditional ones and informal sources for new small enterprise are virtually non existent. The banks are unfamiliar and involving high risk factor not dependable and involve excessive administrative cost. Hence they required them as not eligible for provisions of bank services the sector are neglected by financial institution and this is one crucial area where attention is deemed critical.

Micro financial services depend on the social and economic conditions of client's .If a group of clients are organized it to cooperatives. These institutions gave many to clients, even if it is not satisfactory this is happen they always in fear of début full account. The clients that are not organized in to cooperatives and could not offered through the solidarity groups. Which help to the institutions by availing risk that would jeopardize its normal operations because the groups have their own chairperson, treasurer and Secretary. If one member didn't pay his loan the other members responsible to doubt full clients so most of them didn't want to participate in solidarity groups. So if they want the loan individual they do not get the loan these indicates that the main problem to small enterprise is lack of capital or credit to run their small business.

- **Marketing** is also identified to be major problem to the enterprises. There has been serious lack of market information in what type of business they engaged what was they run the business by considering the market situation in consequence most of our country small business activity a concentration of similar enterprise in the same localities. If one open a house like food preparation all of them want to participate in food preparation. They didn't have any knowledge about the concept of marketing and these make the competition very high in the same locality that reduces the market opportunities of each enterprise.

- **Infrastructure facilities** Infrastructure facilities are those of power, road education, Hospital and Hotels are not well develop in our country. Even if Ethiopia is the third world country or developing country the magnitude of those problem decreases by working together and by long term plan. Especially in the regions it can clearly be seen that lack of developed infra structural facilities is one of the main constraints to micro enterprises development. The micro business enterprises complain about the impact of power shortage on their operations as they can not offered bridging the gaps with stand by generators. Lack of access water supplies and under developed roads have also similar negative impact on the enterprises business. The extent of the problem as it affects new startups turns out to be a special concern by all the government, international non-governmental organizational, Local non-governmental organizations and the society at large is needed.

- **Production and Techniques-** when we talk about the technology it covers the possibility of production equipment's and machinery adapted. The possibility of developing technological capacity in the enterprise as well as the transfer of technology and new product ideas. The technology currently is use by the enterprises involves out date and old equipment unhygienic and very small quantities of production. Very low flexibility in the sense of producing diversified products etc. Besides it is observed that there is a lack of technical training and rephrasing opportunities in the year. Majority of enterprise the skill acquired by entrepreneurs prior to the establishment of their business has rarely been refreshed. Lack of appropriate working place and premises is another ceruical factor limiting the activities of several micro small enterprises. Some micro small firms are forced to operate in very congested place with out having space for machinery and equipment storage etc. The space problem is one of the major constricting factor when the micro firms intends to expand it's business. The difficulty of getting some important row materials coupled with

frequent increases in their costs has also seriously hampered operations of the enterprises.

- **Managerial capacity** The managerial capacity of the micro enterprises is very low. The high proportion of enterprise with out any system of recording accounts. Same significant indicator of the managerial weakness in this regard most enterprises are conducted by the owners in the absence of basic knowledge of the finical and commercial trends and developments.

More over the majority of the enterprise do not adept sharing resource among them selves they work every thing by rule of thumb with out considering the consequences of their activity.

- **Government support**. The government support for the development of micro finical service is the most important. Those like National Bank of Ethiopia that give license for Micro Finical Institutions. Whether to continue there work or not, have a great responsibility. And those cans concerned about the local activities about micro finance have no clear police regarding the development of micro enterprise. Which are of great importance to speed up the economy as well as a whole special supporting schemes means (E.g. Credit) and preferential treatment concerning the provision of land and other support may be some of the potential areas that the government should entrance.
- **Institutional support** - In our country Ethiopia there is no strong chamber of commerce. That can provide reliable and timely market information and technical advice to entrepreneurs and Potential investors. Who plan to start micro (Small business) have generally limited access to market information and technical advice. Consequential the major criterions entrepreneurs sorts to choosing their line of investment appears to be the limitation of other who have started presumably profitable activities in the

same locality. The micro entrepreneurs reported that a number of institutional and bureaucratic impediments constrain them particularly in acquiring.

Licenses during the start up depending on the line of activity entrepreneurs are usually required to approach different institutions (trade industry transport municipality etc). Each is having its own criteria and regulation for the issues of licenses. The uncoordinated activities of the various offices appears to discourage entrepreneurs from mobilizing their business, but the institutions support for the micro financial fund which is not taxed even if micro financial service is profitable organization. This is important policy for the development of these sectors.

5.2 Method of data collection

Source of information

There are two sources to get an information. These are primary sources and secondary sources.

Primary sources - These include the actual information received from individuals directly concerning the problem of the study from non-governmental organizations (both international and local), who participate at least two years in micro financing activity. These paper participate micro financial institutions that engaged in this activity at least two years also include clients who participate in micro financial activity for a minimum of six month. Also the data include a key person from government bodies like regional beruoe of Addis Ababa and national bank of Ethiopia.

The indicators like access to capital, marketing situation of clients, managerial capacity of clients to know how they run their businesses, production and techniques of clients were collected from non-governmental organizations. (Both international and local) by conducting unstructured review. To both non-governmental organizations and collected from clients by distributing structured questionnaires. The information concerning managerial capacity collected from both micro financial institutions by unstructured interview and from clients by structured questionnaires. Information about marketing situation and their competence of client were being collected from both micro financial institutions and clients. Also the information about government support to micro financial institutions was collected from governmental bodies, like national bank of Ethiopia and regional authorities of Addis Ababa by conducting unstructured interview.

Secondary sources - These includes all types of published and unpublished materials about micro financing service and government policies such as magazines, annual report, books, brochures etc.... To get a written material concerning capital or credit of micro finance institutions, marketing situation and competence of clients and techniques of production how they produce or provide their goods or out puts to their customers were being taken from micro financial institutions. The materials concerning institutional support was taken from Association of Micro Financial Institution (AMFI) also the material like government support was taken from national bank of Ethiopia how they give license to micro financial institutions by collecting a written material like government policies and directories.

5.3 Data collection and analyses.

The sampling techniques to collect a primary data from clients we select them randomly because they are homogeneous by using structure questionnaires. Which were being distributed to 121clients. We could determine the number of clients by budgeted sampling techniques by distributing questioners their working areas or when the time of loan disbursement or loan collection in assessing their opinion in the factor affecting their activity of small business.

By using judgment sampling self-administered unstructured interview were being done to the concerned key persons of 2 international non-governmental organizations. We determine the number of international non-governmental organization by budget sample techniques. And among 20 micro financial institutions, which are found in Ethiopia, we conduct 5 micro financial institutions. We could determine the number of micro financial institutions by judgment sampling techniques who engaged their activity in Addis Ababa also government bodies like national bank of

Ethiopia and regional beruoe of Addis Ababa was conduct concerning the general activities and the main problem of this sector.

The collected data just completed and the result of the interview and the reason were personated using descriptive methods Figures were personated and despoiled inwards, on table percentages were used to show the data. Using identification of reasons was process. That is largely occurred in the interview by manual training methods for each reason occurrence and calculated.

Data interpretation were being done by relating the data analyzed to more general theories from the tables and the tally calculation statistical analysis were made an the basis of tally thus we can conclude what is the reason that low income generating activities are not solve.

VI. RESULTAND DISSCUSION

As a result of Ethiopians new economic policy and institutional reform program, which started in 1996, a conducive environment was created for the micro financial institutions to eradicate poverty in Ethiopia. Currently there are 19 micro financial institutions, which are registered by National Bank of Ethiopia.

From the total micro financial institutions which are found in Ethiopia five micro financial institutions are taken which are found in Addis Ababa and surveyed to asses the factors that affect the activities of micro financial institutions. Among the clients who are served in these five micro financial institutions 112 respondents are respond to the questioners. Also unstructured interview conducted in two international non-government organisations and national bank of Ethiopia which is responsible for giving licenses for micro financial institutions.

There are two perspectives to determine and discuss its result. The first one is from the point of micro financial institutions and the second one is from the point of clients

6.1 From The point View of micro financial institutions.

6.1.1 The objectives of micro financial institutions.

The objectives of micro financial institutions are to support the development of money and capital market of Ethiopia in particularly for providing financial services for small enterprises. To meet this objective the company or institutions provide financial services initially in the region of the capital the country.

- . To build the capacity of poor Ethiopians.
- . To help poor who live in petty trade by giving them financial support and long run objectives to alleviate poverty.

To achieve their objective micro financial institutions, the main source of fund are shareholders who have small of share because the law forbidden them from getting dividends. Also they have their own fund and get from donations and sometime they get fund from national bank of Ethiopian and non-governmental organisation

6.1.2 Criteria to select clients

- . The main criteria to select clients who are eligible for these sectors are almost the same in all financial institutions.
 - . A person who is engaged in viable micro and small business activities.
 - . A person who is ready to accept the financial rules and procedures of the company
 - . Who are acceptable by society. And inputs for entrepreneurial growth.
 - . Who can pay his or her loan.
 - . Special attention gave to women.
 - . Who live with poverty and did not have collateral.
 - . Who have address and engaged in business and they must be obliged to save fundamental saving.
 - . The exception is in the age requirements of clients. 80% of micro financial institutions require equal or above 18 years of age up to 65 is capable of understanding his/her business. And 20% of team extended up to 70 years/
- Their criterions not eligible to street children who are not socially acceptable and who have not addressed so they have to consider these. On the hand it is encouraging to develop the trend of saving which is used to diversify their activity.

6.1.3 Service

The main activity of micro financial institutions is to give financial support to clients. In which they gave financial support to clients and collect the loan weekly

be weekly or monthly and the other activities given are train clients. Which is done on all micro financial institutions, but the only financial institution who has training centre are specialised financial and promotional institutions have a training to train their clients. How they use loan and their obligation and how they record their accounts, even most of them are illiterate, they train them by drawing (graphical) methods. Also the micro financial institutions help clients to distinguish in what type business they engaged by giving market information like preparation of food, petty trading, hand craft and so on. So it is good to have a training centre to all micro financial institutions to train their clients properly and continuously. And they serve a large number of clients financially by giving a loan to their clients.

Table 1 Number of participants and their total capital to loan.

Number of micro financial institution	total borrowers			Loanable Capital		
	1999	% of improvements	2000	1999	% of improvement	2000
Specialised financial and promotional institutions	2000	50%	6000	2417000	21%	3665000
Gash micro financing	1920	23%	3118	117800	32%	2277000
Africa vi\$age micro financing	198	8%	2341	45 1000	-9%	376000
Addis credit and saving institutions	4000	33%	7920	5888000	23%	933500
Mekliet micro financing		—	2000	—	—	301000

Sours NBE. June 2001

The table shows that the performance of micro financial institutions has increased in one year by serving more clients in 2000 than 1999 and their loanable capital is increased in all micro financial institutions except Africa village financing.

The micro-enterprises in addition to addressing poverty and food security issues it teaches the poor new skills and help them generate greater saving for investment. According to a survey by the central statistical authority (CSA) in 1948 toward in 1997 there were 584 813 micro enterprises and 2731 small-scale enterprise in Ethiopia employing over 739,898 workers.

6.14 LEGAL REQUIREMENTS

According to the proclamation number 40/ 1996, a proclamation to provide for the licensing and supervision of the business of micro financial institutions in accordance with article 55 (1) of the constitutions of the federal democratic republic of Ethiopia it is here by proclamation as:

Conditions required engaging in micro financing business or criteria's

LICENSES REQUIREMENT

From the national Bank of Ethiopia, the macro financial institutions can be formed as a share company and shareholders must be greater than or equal to 5. Also they deposit at the bank the minimum 200,000# initial capital required by the bank and that the directors and others met regulation set by the bank. These are:

A. Criteria for selection of the chief executives officers

- . Education- a minimum of first degree in the field of social sciences or equivalent in relevant field.
- . Employment a minimum of 3 years experiences in senior post in financial institutions or related institutions.
- . Age- a minimum of 30 years.
- . Marital status- preferably married or responsible to a family

B. Criteria for selection of member of the board of directors are

- C. Education-completion of high school education with ability to read and grasp reports especially financial statements.
- . Age: a minimum of 25 years.

On the other hand micro financial institutions need to have a business plan (they have to know living standards of Ethiopia) again they have to show their accounting record system, organisational structure their manpower, by carrying large survey and it must be approved by national bank of Ethiopia. Also micro financial institutions need to pay investigation fee of 250birr to national bank of Ethiopia. The last but not the least criteria is that the nationality of both shareholders and board of directors must be an Ethiopians.

As law indicates that the minimum capital requirement i.e.200, 000birr. Which is difficult to have at the start up time. Because the living standard of the people doesn't permit to accumulate these much of money and the policy, which forbids the foreigners, and international non-governmental organisations entering these sectors minimise its diversification because of lack of capital.

According to the officer of national bank of Ethiopia. Regulatory frame works governing the micro financial institutions should ensure. That has a sound portfolio performance; law delinquency or default rate, high diversification to

reduce the risk of specialising in delivery of one room product. Ensure the safety of deposit through equity capital, ensure lower levels of liquidity risk provide regular and high quality financial information and reduce the risk arising from dependence on subsidy and influence of dollar. So these controlling activity make by national bank of Ethiopia is encourageable for continuity of its activity.

6.1.5 POLICY REGARDING THE DEVELOPMENT OF MICRO FINANCIAL ENTERPRISE.

There are so many policies, laws and directives, which affect the development in Ethiopia. An attempt is made here to review only the most relevant and recent policies affecting the industry. The monetary and banking proclamation number 83/1994 empowered the national bank of Ethiopia (NBE) to license, supervise and regulate financial institutions such as bank, insurance companies, micro financial institutions and saving credit co-operatives. The licensing supervising of banking business proclamation number 84/1994 allowed for the first time the establishments of private financial institutions, thus breaking the state monopoly to date, six private banks and eight private insurance companies have been established.

Since non-governmental departments co-operatives and others, performed micro credit delivery and saving mobilisation in Ethiopia in fragmented and consistent way the government took the initiative to establish the regulatory framework in order to facilitate sound development of the micro financial institutions. Proclamation number 40/1996, which aims to provide for the licensing and supervising of the business of macro financial institutions, clearly indicates the requirements. For licensing micro financial institutions by empowering the national bank of Ethiopia to license and supervise them. These policies made by government are encouraged the participation of all parties like international non governmental organisations in income gathering activity rather than direct

aid activity and increase the number of micro financial institutions from day to day.

The proclamation it self has some encouraging issues. These are like tax exemption, which is done by ministry of finance here by empowered to determine the period, manner and condition of exemption of micro financial institutions from income tax.

When national bank of Ethiopia deems appropriate the bank shall extend technical assistance required by institutions while being organised or in the course operation and institutions may obtain line of constant creditors any assistance foreign sources formal banks and lenders for the purpose of lending or capitalisation.

6.1. THE ROLE OF INTERNATIONAL NON GOVERNMENT ORGANIZITIONS.

6.1.1 OBJECTIVE OF INTRNATIONAL NON GOVERNMENT IN ETHIOPIA

The international non-government organisations are membership organisation not typical donors. They perform their activity through partners or local non-governmental organisations. They participate in the activity of:

- Creating of enabling environment for work of Non Governmental Organisation
The capacity building program. These are: -
 1. Micro development project, small project to build the capacity in water building and small rogation.

2. Institutional training grant like aim to increase capacity of member's workers training, supply of computer and computer training by short-term training to increase the capacity of members.

3. Provide timely and efficient information to partners by making together the working to discuss to be come net work.

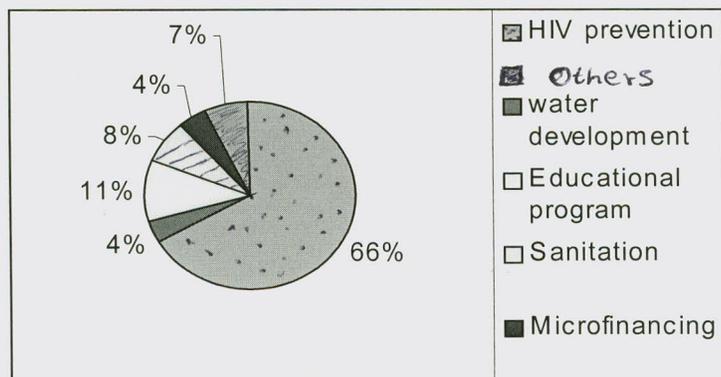
According to respondents of managers of international non governmental organization who participate to eradicate poverty and health. It works a great role with micro financial institutions to develop culture of saving.

The support of micro financial institutions to eradicate poverty in country Ethiopia is great from a research it is understandable that it creates so many life changes by micro financial institutions.

The attention given to micro financial institutions is low when we compare to other because they gave much attention to HIV AIDS prevention and awareness creation program. And others like education, than micro financing even it is a recent phenomenon.

The criteria full filed by micro financial institutions.

- Registered and have license from national bank of Ethiopia.
- They have to show their performance in the proposal.
- They have to show their clients life standards.
- They have to show their own amount of budget.



Pie chart.1 Distribution of selected activities of international NGOs in Ethiopia, May 2002.

The international non-governmental organization gave less attention for micro financial institutions it is only 4% from the total fund they gave much attention for HIV prevention.

The attention given by international non governmental organization to micro financing activity is low, these is contradict with there objective to eradicate poverty of the people if they gave much attention to income generating activity they can achieve all other goals.If poor empower by income generating activity they can provide proper education health and sanitation for their children and themselves. But international non governmental organizations have a problem to directly participate in micro financial institutions as a share holder because they are foreigners they forbid by policy of Ethiopia so it is better to revised and participate them directly to these sectors.

6.1. Problem of micro financial institution.

- REGULATORY FREMWARK IINCLUED

A. Promoting only group guaranty as collateral and no modalities that do not fix to the group model

- B.** Limited loan size of micro financial institution that is only 5000 birr although the lone size was not a serious problem to some of the micro financial institution. This is affecting the development of micro and small enter e work in micro financial institution include
- C.** Allowing only short term lone , that is the maximum 12 months - prize delivery of credit for low cost housing
- D.** Prohibiting the participation of international non governmental organisation as a share holders in the micro financing ;and
- E.** Failure in considering how co-operatives can benefit from the micro financing institutions.
- Limited support to micro and small enterprise development. The conventional banks provide for the baseness community with relatively high-income peoples. The institution focuses on the rural and urban poor. As result there is gap between the two groups. This will require the promotion of micro and small enterprise by appalling individual group lending, larger lone size and longer lone period. The Ethiopian Micro and Enterprise Agency should pervade training to those who are in the start-ups. It should co-ordinate its activities with the micro financial institutions, which provide funds, and training on how managing loans this will need some changes in the regularity framework.
 - Some non governmental organisation still insist on providing credit as a grant such supply of donor subsidised and soft loan is re treading the development towards sustainability. Non governmental organisation can be participating in training, supplying hardware other over head costs and providing loan capital for micro financial institutions.
 - Limited capacity of national bank of Ethiopia to supervise these sectors and absence of government department or other institutions to support development in the industry Very limited capacity of micro finance industry

in terms of trained manpower, equipment, transport facilities, offices, management information system (MIS) research and innovation.

- The poor infrastructure in Ethiopia affects the sustainability of these sectors. These increases the transaction costs and affect the sustainability and profitability of the micro finance institutions.
- Very limited capacity of micro finance industry in terms of trained manpower, equipment, transport facilities, offices, management information system (MIS) research and innovation.

6.2 FROM THE POINT VIEW OF CLIENTS

The main aim of micro financing is to support the poor who suffer from the burden of poverty because they didn't have access to get fund. So to fulfill their basic need clients organise themselves as solidarity group and get financial support, training and market information from micro financing institution.

Housing, marital and educational status of clients.

Table 2

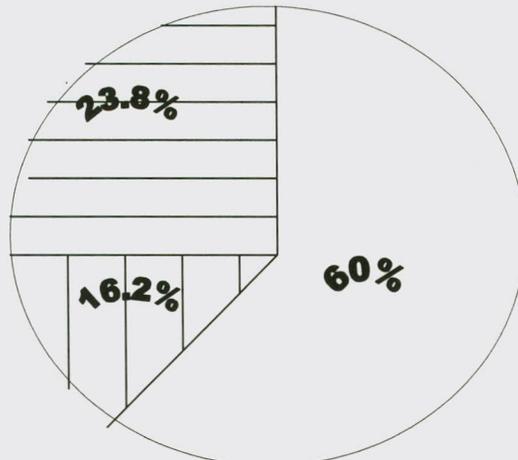
Sex	Housing		Educational Status			Marital Status			
	Rental	Private	Literate Person	Read and write	Illiterate	Married	Divorced	Widowed	Single
Men	8%	4%	9%	5%	14%	9%	32%	51%	8%
Women	72%	13%	4%	18%	50%				
Total	80%	20%	13%	23%	64%	9%	32%	51%	8%

Source from the data collected MAY 2002

As the result indicated the educational status of clients Almost half of them are illiterate even they can't read and write. These are the main problem of clients to have any system of recording their income acquiring from these activities and these make micro financial institutions to incur more cost for follow-up of their client's activity.

6.2.1 MAJOR ACTIVEITY OF CLIENTS

Most clients participate in the activity like food preparation, which encloses preparation of `injera`, local drinks and so on.



Pie chart 2. Activity of clients

Key

Food preparation



Handcrafts



Others



Which shows as the participant of this sector mostly women household and they provided local drinks *Other hand made participations in* small business activities *either hand made* that why loan size of clients are low so they have to create outer works

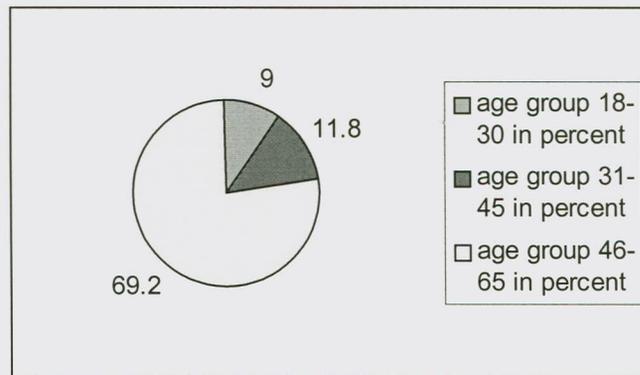


Fig 3 Pie chart showing age group distribution of the clients of micro financing Institutions, Addis Ababa, May 2002.

Mostly the participants are vary from age distribution more than 46 up to 65 because these peoples are socially acceptable this affected the young generation from problem of unemployment's micro financial institution try to revise there selection criteria to participate more young unemployed society.

3
Table 2, Average participants, loan, interest rate and Source from data collected

Micro financial institutions	Percentage of women participants	Percentage of Male participants	Interest rate percentage per annum	Deposit interest rate per annum	Average loan in birr	Average net income of clients per month
Specialised financial And promotional Institutes	80	20	16	7	1000	100
Gasha micro financial Institutions	85	15	13	6	800	122
Addis credit and Saving institution	70	30	12.5	7	1300	185
Africa village financial services	60.5	39.5	16	6	1500	109
Meklit micro financial Institution	73.66	26.34	16	7	700	116

Source: from the data collected

As Table 3 indicated all micro financial institutions gave high attention for empowering women who suffer from the burden of poverty. And the interest rate per annum in all micro financial institutions is more than the interest rate of formal banks, which is 10.5percent annually. The maximum interest rate according to the table is 16percent and the minimum is 12.5percent which is Addis micro financial institutions use and also used by government owned institutions too.

On the other hand the average loan of clients vary from 700-1500 when we compare to the 5000birr which is the maximum loan that micro financial institutions could serve. And the average net income of clients is 126.4 and when its compared to the interest rate of Addis credit and saving institutions which has the minimum interest rate percentage of 12.5 compared to others has a large average net income of clients which is 185birr. On the other hand other micro financial institutions which have a higher interest rate of 16% annually have lower average net income per month of clients.

As the above result indicates poverty in Ethiopia is a milty dimensional problem and owing to poverty large scope and multiplicity of actors. Especially poverty affect women because of the culture of the country, which decreases the number of, educated females, unemployment, which is more significant in women.

In general all micro financial institutions in Ethiopia focus on poverty reduction. The institutions usually start by target market defined by the mission, vision and objectives.

6.2.2 Problem facing clients

Possible problems facing clients are problem of finance, infrastructure problem, lack of training, market information and their competition.

- Although the micro financial institutions in Ethiopia have made all efforts to address the financial needs of the able poor they have excluded the poorest of poor. The micro institutions use a group lending methodology, which helped the poor self-select programs, making it a powerful instrument of identification and targeting. However the group collateral approach screens out the poorest of poor from accessing loan from an institution, they do not have the debt capacity to be regarding borrowers. The self-selection methodology of group formation excluded the poorest of poor. Thus they should develop diversified and flexible financial services that meet the needs of different groups of the poor more over clients are constantly challenging the group collateral and peer pressure approach. It is time to improve the methodology to fit the changing need of clients.

Table 3 Problem of ~~Micro-Finances~~ Institution

Problem of finance	Absence of recording	Infrastructure problem	Lack of training	Lack of market information	Lack of market	Competition problem
100%	98%	Power 6% Transport 9% Water 16% Education 3% Mac&equ 5% Working place 39%	77.6%	46%	79.2%	98%

According to the respondents all of them have financial problem that's why they get the delivery of financial services to minimise poverty. Also the constraints of micro and small enterprise include lack of business or market information, business premises accesses to appropriate technological lack of adequate infrastructure. Even micro financial institution is not making roads, having water supply, education and health services. However, it can pay an important rule in making the above intervention realised. It also empowers the poor and provides them the confidence, self esteem and financial means to increase income and access the social services.

VII. Conclusion

The delivery of micro financial services poor the in Ethiopia is one of the effective instruments to promote good production and good security and main source of employment. All institutions in Ethiopia have shared vision of poverty alleviation. More over, Ethiopia has a favourable macro policy environment and regulatory framework to promote sustainable micro finance activities. Although the development of micro finance institutions in Ethiopia started very recently. The industry showed remarkable growth in particularly in terms of active clients. Since the issuance of the micro financial low, 19 institutions have been registered to deliver financial services to the poor.

The institutions have demonstrated good repayment rates because of the emphasis on financial sustainability, micro financial institutions have been concentrated on accessible regions,, urban areas. However, the region-based and government supported institutions have address the problem of micro finance delivery to agriculture and remote areas. The establishment of these sectors has also contributed to the relatively fair distribution of micro finance activities in the country.

The micro financial institutions have mobilised significant amount of saving from poor households. Saving mobilisation in Ethiopia is becoming an integral part of available micro credit delivery system, such the link between savings and credit promote good production and employment. The experience of these sectors in Ethiopia reveals that the poor are indeed bankable. The potential saving that can be mobilised from the poor is enormous. Attempts should be made build the capacity of the micro financing institutions.

International non governmental organisations must gave high attention to these sector rather than participating in direct relief activity which make our people to

be come hand capped. Also government must encourage the activity of these sectors.

The micro financial institutions should focused on the responsiveness of their financial produces on the need of their clients. I.e. they should learn from what their clients wanted. And then produce products by incorporating the information from the market research or need survey to enhance the economic performance of these sector.

So the institutions try to increase their loanable fund by increasing it's sustainability. And try to get fund from national bank of Ethiopia and the micro financial institutions are tax exempted. Because there aim is not profit but to empowering the poor and financing all the managers of micro finical institutions recommend that the delivery of financial service in Ethiopia has been viewed as an antipoverty tool because the unemployed become employed thereby increasing there income and consumption and reducing poverty. As result intervention in micro finance will have a significant effect on addressing poverty reduction at macro and micro level so government should pay high attentions for these sectors.

All of the clients have a problem of training "except" specialised financial and promotional institutions". Others do not have training centre to train there clients also they have a problem of market information these make clients to participate in the same activity and these make competition very high so they be come bankrupt because of lack of market for there product.

In general, all micro financial institutions in Ethiopia focus on poverty alleviation. The institutions usually start with target market defined by the mission, vision and objectives. The financial service has allowed which sets the lending methodology, loan cycle, and loan ceiling. The lending interest rate which used to be fixed (12.5% decline rate) has been waived and the institutions are attempting

to revise their lending interest rate to reflect the operational and financial sustainability. The lower ceiling for saving interest rate is still by the regulatory framework. If an institution is to maintain its capital holding, it must generate sufficient resources to meet its operating cost including the cost of administrative loans, mobilising and training groups, mobilising funds for on-lending and covering the bad debts. So to cover its cost the micro financial institutions charge large interest rate, which is more than the formal banks. And these led clients to bankruptcy.

Micro financial institutions are imposing high interest rate to cover their large running cost especially in rural area. And donation is encouraged up to 5 years so to be free from donation. The interest rate must be high because the follow up cost and training cost is higher than formal banks. In formal banks there is no such follow up costs they gave a minimum of 20,000 birr. So their paper cost is less than micro financial institutions that is why national bank of Ethiopia revised the former policy, that limit the maximum interest rate is now would be more than 25% annually but now they can increase their interest rate as they want. Thus creates a great burden to the clients they can't afford it easily they are paying like saving, initial loan and interest rate these affect the profitability of micro financing business clients.

VIII. Recommendation

Based on the findings and facts the following points are recommended as a solution to enhance economic performance of micro financial institutions in Ethiopia.

1. The ownership structure of micro financial institutions in Ethiopia organised by regional governmental, local non-governmental organisations and individuals. Although many of them in Ethiopia are established as private share companies, dividends are not distributed to share holders. The entire resources (dividends) are to be utilised for the benefit of the target group i.e. the poor share holders of Ethiopian micro financial institutions are not real investors the share holders may not have sufficient interest to control and guide the management of these sectors. So to make them to invest in this sector they have to get advantage from their investment so the government should revise its regulation concerning these issues.
2. International non-governmental organisation in Ethiopia have been delivering relief and development serves such as emergency food, health, education, water, etc. And Non governmental organisations were directly funding micro finance institutions as part and parcel of poverty alleviation programmes. So International non-governmental organisation solve the problem of high loan interest rate impose to the clients. By increasing the running cost, which is now 20% of total fund gave to micro financial institution, these make clients to be come profitable.
3. The running cost of micro financing institution is more than the running cost of formal banks .So they have to minimise there running cost by changing there working system to decreasing there paper costs. They have spent more costs for the paper and employees salary so they can recruit from the clients who can the

ability to read and write and the ability to follow up by giving them some incentives, this may decrease total cost of micro financial institutions.

4. The government should be advisable to revise its policy that do not allow non governmental organisation as shareholders. If government permits them to participate they can serve so many peoples rather than let them to the relief activity and HIV AIDS prevention only. Because it is known that before satisfying his basic need no one bother to other needs. In general the activity of micro financial institutions are encouraged to alleviate poverty of Ethiopia

... of the clients have a ... "Ethiopia" specialised financial and ... "institutions" others do not have training ... clients. ... is a problem of ma... clients to participate ... these make ... the ... of market for there product.

... is not ... water supply ... and ... However, it can pay an important role in making the above ... also empowers the ... provides them the ... means to increase income and access the ...

... "Ethiopia" specialised financial and ... "institutions" others do not have training ... clients. ... is a problem of ma... clients to participate ... these make ... the ... of market for there product. ... is very from... 18-35 age and which are ...

7. The main criteria of micro-finance institutions are: (i) creditworthiness and which are the main criteria of clients.

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Unstructured interview for governmental bodys

1. Organization
2. What is the criteria to acquire license of Micro financial institution.
3. After giving license due to take any monitoring activity.
4. Is there any clear policy regarding the development of Micro interprise.
5. How you encourage institutions to participate in Microfinacing activity.
6. Is there any measure taken by the government to inhance the activity of these sectors.
7. The ~~task~~ rate of Micro Financial Institutions is more than the ~~task~~ rate of formal banks. However when we see the life standard of those people who participate in Micro financial service is very poor what do you say about these.
8. How was the development by Micro Financial activity over the last ten years.
9. Do You think that enhancing Micro Financial activity in Ethiopia is the main economic activity to solve the problem of the country of Ethiopia.
10. What is the problem to under go these sectors.
11. General recommendation for the development of these sectors.

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Unstructured interview for international Non-Governmental Organization.

1. Organization.
2. In what type of subside activity your organization participate.
3. What is the aim of your organization to participate in Ethiopia.
4. Do you think that inhancing Micro Financial activity in Ethiopia is the main economic activity to solve the problem of the country Ethiopia.
5. Do you gave much attention to Micro Financial activity compare to other activity.
6. From your annual capital of fund how much percentage do you give to support Micro Financing Service.
7. It your organization gave much attention to these sector what is the reason that the problem exist like shortage of fund and capital.
8. What is the criteria which is fulfilled by Micro Financial institutions.
9. What is your problem to under go your activity concerning Micro Financing activity.
10. General recommendation for the development of these sector.

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Structured interview to Micro Financial Institutions

1. Name of Micro Financial Institutions.
2. What is the Objective of your Organization?
3. From where your source of Fund?
4. What is the Criteria to select clients WHO engage in Micro Financial Service
5. What is the reason to impose more interest than the formal banks to your clients ?
6. How do you gave Market information to your clients?
Do you gave any training to your clients to use there loan properly?
7. What is the main problem of your Organization?
8. Is there any steps taken by your Organizations to solve your problem?
9. Even if Micro Financial Institutions are a profitable Organizations.
What is the reason that you don not pay income tax to the government.
10. General recommendation for the development of theses sector.

10. Have you ever been organized to support by micro fencing activity ?

Yes No

If Yes in what way

As a Cooperatives as a solidarity group

11. Is there any marketing problem to your products?

Yes No

If yes specify the reason.

12. Do you have much compaction with in your locality

Yes No

If yes are upon used any lips of measures to minimize the problem of Compaction like sharing resources.

13. To under go your activity anther than financial and credit problem do you have other in fractraturul problem

Yes No

If yes what are they

Power water
Transport Education Health servic

14. What kind of machines are equipments used to perform your business

15. Do you have a Problem of

Working Machinery Equipment
Place

16. Do you have any sis team of recording your in come a quirking from these Activity.

Yes No

17. Can you estimate your monthly income from your business activities

Yes No

If yes how much

If no. as if you don't estimate what is your monthly consumption of food and other expenses

18. Is there any help from governmental bodies like kibbles other than micro Financial institutions

Yes No

If yes what types of support do you get

19. Do you have any kind of fear because you participant in micro financing activity

Yes No

If yes what are these

Fear of Credit

Fear of high interest rate

Fear of doubt full group members

20. Is there any canng in your life because participate in micro finical services.

Yes No

If yes specify _____

21. General recommendation about the activity of the micro financial services





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