

**NETWORKING
MICROFINANCE
ACTIVITIES IN ETHIOPIA:
CHALLENGES AND PROSPECTS**

Occasional Paper No. 1

Wolday Amha (Dr.)

AEMFI

**Association of
Ethiopian
Microfinance
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Addis Ababa, Ethiopia**

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I. Background

Poverty is the main challenge and fundamental issue of economic development in Ethiopia. According to a study by the MEDAC (1996), about 50 percent of the population in Ethiopia are reported to live below poverty line (people consuming less than 2200 Kilo Calorie/day). The major causes of the high prevalence of poverty in Ethiopia include lack of asset, employment opportunities, income, skill, education, health, etc. This is aggravated by soil degradation, deforestation, drought, civil war, and inappropriate government policies.

The Transitional and Federal Governments of Ethiopia implemented policy measures such as the New Extension Program to increase food production and alleviate poverty. Interventions through the delivery of microfinance services were also considered as one of the policy instruments of the government and NGOs to enable poor households increase their output and productivity, induce the adoption of new technologies, improve input mix, increase income, reduce poverty and attain food security. The establishment of sustainable and profitable microfinance institutions that reach a large number of poor households who are not served by formal financial institutions such as the commercial banks have been a prime component of the new development strategy of Ethiopia.

The development of microfinance institutions in Ethiopia is quite a recent phenomenon. The proclamation, which provides for the

establishment of microfinance institutions, was issued in July 1996. Since then, sixteen microfinance institutions have legally been registered and started delivering microfinance services. These include:

**Date of Legal
Registration**

1. Amhara Credit and Savings Institution S.C. (ACSI)	09/04/97
2. Deddebit Credit and Savings Institution S.C. (DECSI)	28/04/97
3. Oromia Credit and Savings Institution S.C. (OCSSO)	04/08/97
4. Omo Microfinance Institution S.C.(OMFI)	01/10/97
5. Specialized Financial and Promotional Institution S.C (SFPI)	25/11/97
6. Gasha Microfinance Institution S.C.	15/05/98
7. Wisdom Microfinance Institution S.C.	17/06/98
8. Sidama Microfinance Institution S.C.	27/07/98
9. Asser Micro-Financing S.C.	08/10/98
10. Africa Village Financial Service S.C.	01/12/98
11. Buusaa Gonofaa Micro Financing S.C.	17/05/99
12. Poverty Eradication and Community Empowerment	18/11/99
13. Mekket Mircofinance Institution S.C	16/12/99
14. Addis Credit and Saving Institution S.C	27/01/00
15. Meklit Microfinance Institutions S.C	16/02/00
16. Eshet Microfinance Institutions S.C	15/03/00

In spite of their differences the above microfinance institutions have shared similar vision uniting them. These microfinance institutions, registered and licensed, aimed at poverty alleviation by targeting specific groups, particularly the poor and group-based lending. They have also proved that the poor in Ethiopia are bankable. In a very short period of time, the microfinance institutions have reached sizable portion of the rural and urban poor and accumulated enormous experiences. The current status (as of September 1999) is such that Dedebit Credit and Savings Institution S.C reached 220,000 clients, Amhara Credit and Savings Institution reached 150,000 clients, while Omo Microfinance Institution, and Oromia Credit and Savings Institution have reached about 35,000 and 30,000 clients respectively. The Sidama Microfinance Institution has about 13,500 clients. The Specialized Financial and Promotional Institution S.C and Asseer Microfinance S.C have reached 3,000 clients each within a year.

In spite of the above success in terms of outreach and size of clients, microfinance institutions are facing problems of loan losses, weak management information system, limited fund for lending problems related to entrepreneurial quality of clients, limited technical and banking skills of staff, absence of a separate unit in the NBE to address the problems and development of microfinance activities in Ethiopia, wrong perception or impression of the community that loans disbursed by governments and NGOs are not collectable or could be deferred and very limited research towards improving the financial sector.

Moreover, on top of the above problems, there were no forums where discussions of the problems of MFIs could be held and useful experiences shared. A microfinance institution can hardly know what others are doing. The lack of a solid network has at least deprived the microfinance institution the chance of learning from each other. The objectives of this paper are to: (a) indicate the conditions under which the network Association of Ethiopian Microfinance Institutions (AEMFI) was evolved; (b) identify the role of the network under the new environment; (c) discuss the constraints of the networking process; and (d) outline the planned activities of the network.

II. Conceptual Framework

A distinction should be made between organizations and institutions. Institutions are the rules of the game in the society (norms, convictions, rights, and contracts). Organizations are the teams within that set of rules, and groups of individuals bound by some common purpose to achieve certain objectives (North 1990). Organizations include political bodies (e.g. political parties, regulatory bodies, city councils); economic bodies (e.g. firms, family, farm cooperatives); social bodies (e.g. churches, clubs, associations); and educational bodies (e.g. schools, universities). Organizational changes are fundamentally influenced by the evolution of the institutional framework. For example, the establishment of a microfinance network in Ethiopia resulted in the process of institutional reform in the financial sector which again resulted in the designing of new set of rules to regulate microfinance activities. The institution building process of the network of microfinance activities in Ethiopia has made long

overdue. However, the creation of such a network should not be supply-led rather than demand-driven.

The Small Enterprise Educational Promotion Network (SEEP) divides networks into two groups:

- i) The first group comprise what are called the 'lateral learning networks'. These are associations of microfinance institutions or NGOs focused on improving the capacity of their members. Although members operate independently and are diverse in their target clientele methodologies, what brings them together is their interest in improving practice, sharing information, and coordination that will enhance the policy and funding environment for the sector.

Common services provided by lateral learning networks include information exchange, technical training, development of best practice materials, donor marketing and policy coordination.

- ii) The second group include 'operational alliance' These are formal affiliations of NGOs that share a common mission and are focused on a common clientele. An operating alliance constitutes a more tightly-knit group whose members have brought their operational strategies in line to achieve a common purpose. In many cases, they implement the same (similar) methodology and use the same systems. They are often led by an apex institution that provides technical guidance and resources as well as enforces adherence to the principles and goals set by the alliance. They also tend to have direct involvement in resource

mobilization of members, channeling operating and/or loan funds to them or functioning as financial intermediaries (managing deposits, investment, etc., on behalf of the group). However, like lateral learning networks, operating alliances often support members with providing technical training, systems of development and mechanisms of advocating policy.

The lateral learning networks are similar to the 'Information Exchange Networks' (IENs). These networks (IENs) are defined as a collaborative process in information exchange around a central theme carried out by actively interested parties with common interest or problems (Nelson & Farrington, 1994). A prerequisite for the information exchange process is that there is self-interest and a strong element of voluntary collaboration among participants or members of a network in the exchange of information. Unlike information dissemination, networking facilitates and stimulates interactions among members through:

- a. a word of mouth. This is the tool of information exchange most commonly used by networks. Speaking directly to another person is the quickest and most efficient way of sharing information;
- b. working groups. These groups focus on specific area within the network's mandate to provide a forum for discussion around certain topics. Workshops are the most common means deployed by these groups for carrying forward work proposals.

-
- c. workshops and seminars. These are short (from half a day to a week) interactive meetings of network members who gather to address particular issues, themes or problems facing the sector and refine the work of the network. They also bridge gaps that often appear between disciplines.
 - d. postal services. When personal contact is rare and telecommunication is expensive, postal services provide another option for communication among members within and between networks.
 - e. electronic telecommunications. These include telephones, facsimile transmissions (faxes) and e-mail. Today, because infrastructures and information technologies are developing, the cost of electronic telecommunications is on the decline.
 - f. exchange visits. These visits provide a valuable opportunity for network members to directly share experiences and gain wider perspective on common problems.
 - g. network newsletters, bulletins and journals. These are also popular means of sharing experiences and ideas in the networks.
 - h. publications. These include special papers, discussion papers, working papers, technical booklets, workshop syntheses, books, etc., which make the results of the network activities available to a wider audience than the network members.

- i. training. it provides a useful vehicle for sharing the experiences that have been accumulated by network members, especially in the implementation of particular methods or techniques (Nelson and Farrington, 1994).

Our network of Association of Ethiopian Microfinance Institutions (AEMFI), is classified under the first category of SEEP i.e., a lateral learning network. The goal of the network AEMFI is to improve access to information and facilitate experience sharing among microfinance practitioners, policy makers, donors and the public, and build local capacity and expertise in the sub-sector. The network provides the forum for policy dialogue with the aim of positively influencing policies, which govern microfinance activities in Ethiopia. The following model adopted from Starkey (1992) explains the network structure of AEMFI.

The figure indicates that the secretariat of the AEMFI does not centralize power and ideas; rather it provides the means for all stakeholders to contribute in the exchange of information and experiences in a flexible manner. Moreover, since practitioners can rarely find enough time to write and share their experiences, the network Association of Ethiopian Microfinance Institutions (AEMFI) does play an important role in filling the gap and creating the direction for collaborative efforts. The Association has the potential to prevent duplication of effort. It has the opportunity to use the synergy of a group to find solutions to common problems.

Based on the above structure, the network (AEMFI) is defined as an institutional structure through which microfinance practitioners collectively interact to safeguard and promote their objectives. At this stage, the main emphasis is to create the forum to discuss their common constraints and exchange their experiences. In the future, they may use the network to coordinate their activities build the capacity of the microfinance industry, and create strategic alliances.

Unlike other civil societies, the AEMFI does not have the objective of replacing the activities of the state. Today, civil societies are supported by international NGOs due to the revival of the neo-classical theory in policy decisions in developing countries mainly through the Structural Adjustment Programs. Here, there is an inverse relationship between the role of the state and the development of civil societies i.e., the role of the state in economic activities is declining. Thus, civil societies will then have the role of filling the void left by the retracting state.

There are also arguments that civil societies have better quality of being accountable, transparent, representative and efficient. They are used to support the process of decentralization, democratization, local governance, participation and empowerment. Some of the civil societies are also used to put pressure on government and implement their own specific objectives. However, the aim of this network (AEMFI) is not to challenge and oppose government policies or fight for democracy. The network, other than its goal specified in the Memorandum of the Association (Annex 1), will not also be used as an instrument of meeting the objectives of other entities. However, the network creates open dialogue and debates that any democratic society allows and encourages.

There are two inter-related approaches in institutional analysis. These are what are called (a) the transaction cost approach and (b) the collective action approach (Nabli and Nugent, 1995). Collective action is the condition under which groups of people with common interest will perceive that interest and act to achieve it (Clague 1997). In this paper, the main emphasis is on describing the experience and process of building a network of an Association for microfinance institutions, i.e., AEMFI, in Ethiopia.

III. Building the Network

As Ethiopia is in the process of moving away from the model in which the government has been trying to do everything, it is clear that non-profit-making Associations such as AEMFI will

contribute much to the development process. Building the Association of Ethiopian Microfinance Institutions (AEMFI) was a difficult process. The institution building process reflects the local complexities in Ethiopia. For example, initially the legal framework was not clear for members of the ad-hoc group who were involved in drafting the Memorandum of Association of the AEMFI. The government departments directly responsible for microfinance development in Ethiopia such as the National Bank of Ethiopia (NBE) were not clear about their role and mandate in the entire licensing process of a network. When the Ministry of Justice wrote a letter to the NBE for its comment on the establishment of the network, (AEMFI), the letter was redirected to the supervision department of the NBE for a prompt response. Actually, the Ministry of Justice had clearly stated the deadline (10 days) to the NBE to respond to its letter. The Supervision department of NBE forwarded the letter to the governor of the Bank. The governor then sent the letter to the legal department of the NBE and finally forwarded it once again to the supervision department. This indicates that the NBE itself was not clear of the legal framework and its mandate in the process.

Before drafting the Memorandum of Association of the AEMFI and the plan of operation, it was quite useful to visualize and set criteria for an ideal network, its objectives, governance, membership, sustainability, independence, etc. Therefore, the following principles of an ideal framework for the establishment of a network were specified:-

- ☛ The objectives of the network should be clear to all members.

- ☛ The network should create accommodating environment for practitioners and interactions with policy makers and donors.
- ☛ There must be a common objective (shared vision) of practitioners to join the network;
- ☛ There should be a common understanding of who can become a member of the AEMFI.
- ☛ The duties of the AEMFI members should be defined clearly.
- ☛ The network should be established voluntarily on the principles of equality and respect for sovereignty of members.
- ☛ The network should respect differences of opinion held by members.
- ☛ The AEMFI should be based on transparent and democratic decision-making process
- ☛ Network members should give priority and support to a legally registered networking institution instead of an informal forum.
- ☛ The network should maintain trust, facilitate frank and honest exchange of information and experience among members.
- ☛ The AEMFI should develop a system of membership which guarantee members that they get better and tangible benefits than non-members.
- ☛ The rules of the network should be enforced efficiently.
- ☛ The AEMFI should be accountable to member institutions.

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- ☛ The network needs sufficient autonomy in the management of its resources and determination of priorities.
- ☛ The AEMFI should not be attached to any political party; rather it should operate independently.
- ☛ The core-staff of the AEMFI should be dedicated and highly qualified with the capacity to mobilize and coordinate the networking activities, deal with external relations, and meet 'modern needs' i.e., should be informed and in possession of particular skills.
- ☛ The AEMFI should be member-driven rather than staff-driven.
- ☛ The AEMFI should encourage the participation of women.
- ☛ The AEMFI should be self-sustaining in terms of income which might require the provision of services to members at cost.
- ☛ The network should be transparent in financial management.
- ☛ Equal representation of members in the network regardless of their client size. Each member of the AEMFI should have one vote.
- ☛ The leading role of establishing the AEMFI should be the task of practitioners of microfinance in Ethiopia.
- ☛ The network should not involve itself in competition with other institutions for the same type of program.
- ☛ It must be also clear that the AEMFI should not be used to exercise monopoly and as an instrument of putting political pressure on the government.

- ☛ Ultimately, the viability of the network should depend on the efficiency of providing concrete outputs or services to members on a sustainable basis. Otherwise, the withdrawal will be without cost.

IV. Experience Gained from Establishing the Association (AEMFI)

Based on the principles specified in section III, ad-hoc groups of microfinance practitioners and NGOs have been working to link the microfinance institutions and create this forum since 1995. There were five institutions who took the initiative to establish a national network of microfinance activities in Ethiopia. These included:

- 1) World bank/Redd Barna, Ethiopia;
- 2) UNDP/Women's World Banking;
- 3) DECSI, ACSI, OCSSCO and OMFI;
- 4) World Vision Ethiopia and
- 5) Pact-Ethiopia and CRDA

The initial effort in the formation of the Network of Microfinance Institutions in Ethiopia started in 1995 when DECSI and ACSI started networking their activities who were later on joined by OCSSCO and OMFI. A Workshop was held at UNECA, Addis Ababa, on June 28, 1996 in which microfinance practitioners participated with the objective of creating a national network that would enable institutions to learn from their experiences and adopt new and sustainable techniques of improving their strategies of reaching the poor. Follow-up workshops were called on November

27, 1997 and March 27, 1998 to examine the modalities for the establishment of the network in Ethiopia (see details in Solomon Belete, 1999). In July 1997, a workshop was jointly organized by Women's World Banking (WWB), ACSI and African Village Academy who at the same time volunteered to act as facilitators in building the network in Ethiopia (WWB, 1997).

Since July 1996, the World Bank mission has been also supporting 'Action Research Program' in six African countries, one of which was Ethiopia. The objective of this program was to present case studies of successful credit practices in these countries and share information and assist these countries in building their own country-based networks.

World Vision-Ethiopia, with its grant USAID - Micro-enterprise Best Practice, hired a consultant to support the establishment of the network. Moreover, there has been an attempt to establish the forum of micro-credit practitioners by Pact-Ethiopia and CRDA. Actually, all the above initiatives indicated the need for the establishment of a solid network in Ethiopia.

It is after lots of efforts that this network was registered and licensed as an Association of Ethiopian Microfinance Institutions (AEMFI) by the Ministry of Justice on June 28, 1999. The institution-building process of the AEMFI involved the following stages:

- a) initial dialogue and agreements on the approach of establishing the network;

- b) establishment of an ad-hoc board of directors which involved DECSI, ACSI, OMFI, and OCSSCO;
- c) produce the proposal for funding and identify key donors to support the network;
- d) draft the Memorandum of Association of the AEMFI (see Annex 1) and submit it to the Ministry of Justice;
- e) establishment of the office of the network by employing one core staff, acquiring an office premise and purchase of the necessary equipment and furniture;
- f) convene all MFI leaders and NGOs involved in microfinance activities for a discussion on the entire network-building process;
- g) follow-up of the proposals submitted to donors to solicit fund;
- h) Familiarization and discussions with all the leaders of MFIs. The meeting of microfinance leaders was held on October 8, 1999 at Ghion Hotel where WISDOM Microfinance Institution and SFPI were elected to join the ad-hoc board (DECSI, ACSI, OMFI and OCSSCO); and
- i) reaching a decision on the date of the General Assembly.

V. Objectives of the Network

According to the Memorandum of the Association, the AEMFI shall provide members with services that have public-good characteristics. These objectives are intended to:

- ✪ promote greater collaboration and networking among microfinance institutions in Ethiopia;

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- ✧ facilitate information sharing and introduce innovations and best practices among microfinance practitioners in Ethiopia and learn these from the rest of the world;
- ✧ help develop or improve financial sector policies and regulations;
- ✧ organize series of talks and discussions in which prominent guests, policy makers, microfinance practitioners, NGOs and the public will present their thoughts, identify and discuss microfinance issues;
- ✧ organize thematic workshops and training relevant to the development of microfinance in Ethiopia and Africa;
- ✧ establish a database to provide up-to-date information on the national status of microfinance activities in Ethiopia;
- ✧ solicit funds to undertake research and surveys on the success, development of new products, constraints and prospects of microfinance activities in Ethiopia;

- ✧ promote timely transmission of information regarding the demand and supply of microfinance services in Ethiopia;
- ✧ build performance standards to be used by microfinance practitioners and donors;
- ✧ establish solid communication among microfinance practitioners, National Bank, Ministry of Finance, NGOs, and other government institutions involved in microfinance activities; and
- ✧ establish regional offices of the network in Ethiopia.

The AEMFI has introduced broad-ranging membership criteria to involve registered and non-registered microfinance institutions, NGOs, banks and individuals who are directly or

indirectly involved in microfinance activities. The membership of the Association is categorized into (a) regular members, (b) associate members, and, (c) honorary members (see Annex 1 for details).

The network has been in the process of promoting its objectives and registering members before calling the general assembly. In the general assembly members of the board of directors will be elected, and the five-year operation plan will also be discussed and approved. And at the same time the activity plan, administrative, financial and other important issues of the AEMFI will be thrashed out. We believe that the Association will play a unique role in networking the activities of microfinance institutions in Ethiopia. In the long run, a higher level of networking may also bring other forms of alliances, cooperation and merger among the microfinance institutions.

VI. Progress made to date

Actually the network is very young. Within a short period of time, it has accomplished activities that are far from negligible. It has:

- 1) established a fully functioning office of the network with dedicated and qualified core staff. The ad-hoc board has

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employed an executive director (permanent secretariat) of AEMFI to run the activities of the network efficiently;

- 2) produced all the required documents (including the Memorandum of Association) to be registered by the Ministry of Justice and received the license on June 28, 1999 from the same Ministry;
- 3) solicited funds for the operation of the network from donors such as Community Aid Abroad, (CAA), PACT-Ethiopia, SOS FAIM, Women's World Banking, UNDP-Ethiopia, Irish Development Cooperation and ADB/AMINA Program;
- 3) obtained help from the Norwegian Peoples Aid (NPA) to finance the "International Conference on Microfinance Development in Ethiopia: Challenges and Prospects (convened in Bahir Dar, December 2-5, 1999). The conference was esteemed as informative and useful because of the fact that it addressed the main issues of Microfinance development in Ethiopia;
- 5) managed to have now two direct telephone lines of its own, which connect it to internet and fax facilities;
- 6). recruited full-time administrative and finance officer of the network;

- 7) produced its logo, brochure and translated the Memorandum of Association from its original Amharic version into English;
- 8) produced proposals and submitted them to USAID, EU, ACTION AID, WORLD BANK, SOS FAIM, UNDP and ESRDF for funding.
- 9) participated in the Dakar conference which was held to establish microfinance network in Africa from October 21-28, 1999;
- 10) conducted open discussion with all microfinance leaders on establishing a solid network in Ethiopia. The network director had a series of discussions on the role of the network and the area of future co-operation with the representatives of PACT, USAID, ESRDF, World Bank, World Vision-Ethiopia, Action Aid, the Ministry of Finance, and the National Bank of Ethiopia;
- 11) held its first meeting with all the leaders of microfinance institutions in Ethiopia.
- 12) attempts were also made to promote the network using mass media. To this effect, the executive director of the AEMFI wrote an article "Towards Microfinance Service Development" on the *Ethiopian Herald* (daily newspaper) Volume LV, P.8, September 4, 1999;

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- 13) finalized its maiden issue of the AEMFI bulletin, named *Microfinance Development Review, Vol. 1 No. 1, 2000;*
- 14) started the process of editing and publishing the proceedings of the International Conference on Microfinance Development in Ethiopia with a financial support obtained from ADF/AMINA.
- 15) The AEMFI, in collaboration with ADB/AMINA program, coordinated an experience exchange program with Kenya for eleven registered Ethiopian MFIs;
- 16) convened a workshop on " Strengthening Networking Microfinance activities in Ethiopia" in collaboration with World Vision Ethiopia and Small Enterprise Education and Promotion (SEEP) and AEMFI.

VII. Challenges

The network has just come into bud. Thus, it has only been involved in promoting and consolidating its activities. The network has to face quite a number of challenges. The major ones are stated hereunder.

- (a) There were many initiatives to establish a network by different institutions. Taking the initiative for the establishment of a solid national network and bringing about the unity of the AEMFI was a real challenge. Although the institutions were, at last, successful in creating one national microfinance network for all those registered, serious efforts

were required to involve all practitioners and institutions with direct or indirect impact on microfinance development in Ethiopia.

- (b) Finance is one of the major constraints of the network, particularly in the take-off stage of AEMFI. Many of the donors are not very often willing to support a network until it delivers concrete outputs or services to members. However, it must be noted that a network will find it difficult to deliver these services without donor support.

Although the support of members is encouraging, they must lobby to solicit funds in order to implement the planned activities of the network. In most cases, the support of donors is tied up with a specific hardware or the provision of services to members. There was very limited funds to cover administrative or overhead costs of the network. Moreover, one has to be careful of donor funding which is very often prone to changes of fashion. Today, networking of microfinance activities could be popular and attractive at one time but once donor-fatigue sets in, it suffers from the withdrawal of funds and support.

- (c) The absence of a microfinance unit in the National Bank of Ethiopia to follow-up the development of the sub-sector is a serious problem.
- (d) The network members are worried about the sustainability of the network. The service delivery of the network should not entirely depend on donor support. It has to design a strategy

of delivering sustainable services to its members. Moreover, the compact core-staff of the network and members should work hard to provide concrete outputs to members.

VIII. Future Plan

8.1 Short term (one year) activities

Although the detailed outputs and activities are available in section 8.2, we would like to specify the very immediate activities which comprise:

- a. calling a general assembly;
- b. assessing the training needs of MFIs;
- c. establishing good working relationships with related organizations within and outside Ethiopia;
- d. publishing the proceedings of the international conference;
- e. producing the first issue of the Bulletin of the network 'Microfinance Development Review' Volume 1, No. 1, 2000;
- f. conducting the first training to microfinance practitioners;
- g. conducting a round-table discussion among policy makers, practitioners, donors and other stakeholders on microfinance development in Ethiopia;
- h. establishing the resource center of the network;
conducting survey of microfinance activities (database) in Ethiopia;
- i. conducting experience sharing visits among members; and

- j. promoting the objectives and activities of the network through the mass media.

8.2 Output and activities of the network (Three years)

Output 1. Inventory of microfinance activities in Ethiopia and updating the database and research.

- 1.1 Carry out baseline survey on microfinance activities in Ethiopia;
 - 1.1.1. Documentation of the whole process of the baseline survey;
 - 1.1.2. Upgrading the baseline data;
 - 1.1.3. Publish a summary report of the baseline survey;
 - 1.1.4. Create a directory of MFIs in Ethiopia;
 - 1.1.5. Undertake research on selected issues in the microfinance sub-sector, i.e.,
 - 1.1.5.1 identify issues and problems for detailed empirical studies and surveys;
 - 1.1.5.2 conduct detailed case studies;
 - 1.1.5.3 review the situation of microfinance institutions; and
 - 1.1.5.4 identify gaps in order to provide basic information to policy makers.
- 1.2 Facilitate the establishment of the resource center;

- 1.2.1 establish resource center of the network;
- 1.2.2 collect and document all legislation, laws, policies and strategies, which have direct impact on microfinance activities;
- 1.2.3 collect and document all relevant literature on microfinance activities in Ethiopia; and
- 1.2.4 collect books, journals, reports and other publications on microfinance in Africa and the rest of the world.

Output 2. Promote policy dialogue on important microfinance issues and exchange experiences among practitioners by conducting workshops, conferences, round-table discussions and other forums such as:

- 2.1 carrying out workshops and studies on the status, problems, prospects and interventions to address the constraints of microfinance institutions in Ethiopia and
- 2.2 conducting studies on microfinance development in Ethiopia.

Output3. Publish and distribute the proceedings of workshops and conferences and the bulletin of the network and others such as:

- 3.1 Identifying organizations involved in microfinance activities;
- 3.2 building database of members and partner organizations;
- 3.3 identifying relevant organizations, research organizations, government organizations and donors who could use the output of the Association;
- 3.4 developing solid networking structure of members and partner organizations;
- 3.5 publishing the proceedings;
- 3.6 documenting Ethiopian (homegrown) best practices and contribution to microfinance and
- 3.7 publishing the bulletin of the Association.

Output4. Organizing training and experiencesharing visits for members with the view to:

- 4.1 assessing the training needs of members;
- 4.2 developing the content of the training;
- 4.3 developing the training modules;
- 4.4 identifying Ethiopian and African consultants and consultants from the rest of the world with wide-

experience and knowledge whom the Association can use as resource persons;

- 4.5 conducting training;
- 4.6 documenting the training process;
- 4.7 assist in building a training center;
- 4.8 preparing experiencesharing visits within and outside Ethiopia and
- 4.9 documenting the experiencesharing visit.

Output 5. Establishing solid contacts with institutions involved in microfinance activities in Ethiopia and the rest of the world by:

- 5.1 identifying the relevant organizations in Africa and the rest of the world who are involved in microfinance activities and who can support the microfinance activities in Ethiopia;

- 5.2 establishing contact and exchange information and experiences with the regional and international networking institutions and others;
- 5.3 disseminating the better practice materials;
- 5.4 facilitating inter-MFI relationships in order to reach the level of inter-MFI borrowing and full integration;
- 5.5 creating a system of performance indicators;
- 5.6 participating in microfinance networking meetings; and
- 5.7 exchanging relevant materials.

Output 6. Soliciting funds for workshops, training, research, experiences sharing visits and others such as:

- 6.1 collecting membership fees from members;
- 6.2 preparing proposals to finance the research component of the network;
- 6.3 preparing proposals to finance the series of workshops;
- 6.4 preparing proposals to finance training;
- 6.5 preparing proposals to finance the experience-sharing visits;
- 6.6 preparing proposals to finance the resource center;
- 6.7 preparing a proposal to finance the training center;
- 6.8 preparing proposal to build the office of the network;
- 6.9 designing a strategy for long-run financial sustainability of the network; and

- 6.10 supporting search for financing MFIs and disseminating information on donor funding programs.

Output7. Ensuring efficient management of the office of the network in terms of:

- 7.1 preparing proposals and plan of operation (action plan);
- 7.2 preparing detailed annual work plans;
- 7.3 updating the plan of operations;
- 7.4 preparing the monitoring and evaluation system of the Association;
- 7.5 Translating the Memorandum of Association into English;
- 7.6 producing the Logo, brochure, posters, etc. of the network;
- 7.7 recruiting additional staff for the Association;
- 7.8 developing manuals for administration, finance, personnel, management, property management, etc.;
- 7.9 organizing the general assembly of the AEMFI;
- 7.10 organizing board of directors meetings of the AEMFI;
- 7.11 organizing staff meeting of the AEMFI;
- 7.12 making monthly summary of accounts;
- 7.13 auditing the annual activities of the Association using external auditors;
- 7.14 preparing financial plan of the AEMFI ;
monitoring the activities of the AEMFI by:

- 7.15.1 Preparing monthly reports;
 - 7.15.2 Preparing six months reports; and
 - 7.15.3 preparing annual reports;
- 7.16 preparing training and experiences sharing visits for the staff of the AEMFI;
- 7.17 valuating AEMFI activities through:
- 7.17.1 Implementing internal evaluation; and
 - 7.17.2 external evaluation (progress review of the Association after two years and five years) and

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Annex- I
MEMORANDUM OF ASSOCIATION

ASSOCIATION OF ETHIOPIAN MICROFINANCE
INSTITUTIONS
(AEMFI)

ARTICLE 1

Name

- 1.1 The 'Association' is named "**Association of Ethiopian Microfinance Institutions**", and it is hereafter referred to as the 'Association'.

ARTICLE 2

HeadOffice

- 2.1 The head office of the 'Association' is located in Addis Ababa, Ethiopia. The 'Association' may however, establish regional offices as deemed necessary and appropriate.

ARTICLE 3***Sealand Emblem***

- 3.1 The 'Association' shall possess its own organizational seal.
- 3.2 The 'Association' shall have a legally registered emblem which shall be strictly used for the purpose of the 'Association'.

ARTICLE 4***The Characteristics of the 'Association'***

- 4.1 The "Association" shall be a non-profit-making institution primarily involved in establishing a forum where the experiences and lessons of microfinance institutions shall be shared; information is organized and exchanged; networking of activities of the microfinance institutions occurs at national and international levels; and providing training and promoting standards of microfinance institution activities. In general, the "Association" will promote the activities of microfinance institutions by creating a forum for policy dialogue and to design and implement policies promoting Microfinance Institutions.

ARTICLE 5

Objectives of the 'Association'

- 5.1 The main objective of this 'Association' shall be to promote greater collaboration, and networking through information exchange and experiencesharing among those microfinance institutions registered and licensed under the National Bank of Ethiopia. This will contribute to the increase in the performance of microfinance institutions and poverty alleviation programs. The 'Association' supports members by creating a forum for dialogue and exchange of experiences, facilitation of experience exchange visits, and by providing training to build the technical capacity of members to participate satisfactorily in the activities of the Association.

ARTICLE 6

Purpose

- 6.1 Support and create a forum where Microfinance Institutions will exchange information, experiences, establish models of good practice, standardize credit and saving activities and organize training.
- 6.2 Promote and support networking activities by improving systems of communication and cooperation, experience-sharing and training among Microfinance Institutions in Ethiopia, Africa and the rest of the World.
- 6.3 Initiate and support policy dialogue and create forums, in Ethiopia, wherein Microfinance and Government Institutions, notably the National Bank of Ethiopia, Ministry of Finance and institutions involved in credit and saving activities, can build their capacities and discuss methods and modalities for improving policy frameworks affecting microfinance activities and policy implementations.
- 6.4 Provide up-to-date information (database) on the status of Microfinance Institutions in Ethiopia and clients of these institutions.
- 6.5 Solicit funds and conduct studies on impacts, constraints and prospects for microfinance activities in Ethiopia. The 'Association' shall create the forums for discussion

and presentation of assessment and study results to facilitate learning about the sector in Ethiopia. The presentations will be made by the 'Association' itself or through relevant consultants. Information emanating from the studies and discussions will be for public dissemination.

- 6.6 Provide training, seminars and workshops focusing on improving savings and credit practices and activities.
- 6.7 As the need arises, the 'Association' shall provide support and prepare feasibility studies which support Microfinance Institutions.
- 6.8 The 'Association' shall accomplish activities that are directly related to its objectives.
- 6.9 Identify and study options and mechanisms for obtaining diverse fund sources of credit for the Microfinance Institutions and distribute the output to members.

ARTICLE 7

Structure and Criteria of Membership

- 7.1 The 'Association' shall be established voluntarily with the prime objectives of exchanging information and sharing experiences among Savings and Credit Institutions. The regular 'Association' members shall be

those microfinance institutions licensed and registered under the FDRE Proclamation No. 40/96.

- 7.2 The "*Association*" shall have Associate and Honorary Members.

ARTICLE 8

Membership

8.1 Regular Membership

- (a) Any Savings and Credit Institution, which is licensed and registered under the FDRE Proclamation No. 40/96 and has been effectively providing services for a minimum period of six months, shall be deemed a regular member of the 'Association'.
- (b) All members shall pay membership fee to support the activities of the 'Association'. The amount will be decided by the General Assembly. Further membership details will be stated in the laws and by-laws of the 'Association'.
- (c) Regular members shall have the right to elect or be elected to serve on the Board of Directors and have the right to comment or amend the Memorandum of Association.
- (d) Regular members shall provide the 'Association' with information on the activities of their institutions. The information is sought to make available relevant and

informative publications on the activities of the *Association*.

8.2 Associate Membership

- (a) Institutions that are directly or indirectly involved in microfinance activities shall be deemed Associate Members of the '*Association*'.
- (b) Associate members shall contribute towards financing the activities of the '*Association*'. The level of membership fee for Associate Members shall be decided by the General Assembly. Furthermore, details of membership fees shall also be stated in the laws and by-laws of the '*Association*'.
- (c) Associate Members shall have no voting rights. They do, however, have full right to participate through the giving of advice, commentary and suggestions on issues related to the management and activities of the '*Association*'.

8.3 Honorary Members

- (a) The '*Association*' shall have the right to select prominent individuals or other associations as Honorary Members given that they can contribute positively and support the fulfillment of the objectives of the *Association* to be.

ARTICLE 9

Responsibilities of Members

- 9.1 Regular and associate members of the 'Association' who fail to pay the membership fee for a period of more than a year and a half shall have their membership rights terminated.
- 9.2 All members shall provide pertinent information and prepare reports as per the request of the 'Association'.

ARTICLE 10***Organization of the 'Association'***

The 'Association' shall have the following structure:

- 1) A General Assembly;
- 2) A Board of Directors; and
- 3) Office and requisite management and technical staff.

ARTICLE 11***Duties and Responsibilities of the General Assembly***

- (a) The General Assembly shall comprise regular members on the basis of equal representation.
- (b) The General Assembly shall meet regularly every two years.
- (c) The General Assembly has the power to nominate or terminate members of the board of directors.
- (d) The General Assembly shall appoint or dismiss the auditor of the Association from his/her duties.
- (e) The General Assembly shall have the right to amend the Memorandum of Association and by-laws of the

Association, dissolve the *Association* and transfer properties of the '*Association*'.

- (f) The General Assembly shall approve the general guidelines, directives and policies of the *Association*, the annual program of work and budget of the *Association* and activities and audit reports.
- (g) An extraordinary meeting of the General Assembly shall be convened if one third (1/3) of the members express wish or if the Board of Directors gives notice of such a meeting at least one month in advance.
- (h) The Board of Directors shall distribute the agenda of the meeting of the general assembly, including a statement of date, venue and required attendance, 15 days in advance.
- (i) Fifty percent of the members shall constitute a quorum. However, if a quorum is not obtained within the time fixed for the meeting, another meeting shall take place after a period of two weeks.
- (j) The Director of the Board of Directors shall chair the meeting of the General Assembly. In the absence of the Director of the Board, the General Assembly shall elect a chairperson for the meeting.
- (k) Decisions of the General Assembly shall be on the basis of a single majority of those present in the meeting. Where there is equal number of votes in the meeting on a

specific issue, the vote of the Chairperson shall make the final decision.

- (l) The General Assembly may delegate its power and duties to the Board of Directors as appropriate.

ARTICLE 12

The Board of Directors

- (a) The Board of Directors shall carry out the duties and responsibilities assigned to it by the General Assembly.
- (b) The Board shall elect its Director and Deputy Director.
- (c) The membership composition of the Board of Directors shall range from five to seven members.
- (d) The term of service of the Board shall be two years.
- (e) For continuity of the activities of the 'Association', two of the members of the Board of Directors shall be nominated for re-election.
- (f) The Board shall conduct its regular meetings every four months. However, should the Board Director and two of the Board members request an extraordinary meeting for urgent matters, the Board has the discretion to convene such a meeting within a period of one week.

- (g) The General Manager of the 'Association' shall be a non-voting member of the Board of Directors.
- (h) The Board shall draft the policies of the 'Association' which shall constitute an integral part of the management system of the 'Association'
- (a) The Board shall make decisions if the majority of its members (above 51%) are present in a meeting. However, under extraordinary situations and with justifiable reasons which shall be clearly recorded in the minutes, the Board shall make decisions even if the members present do not constitute a majority.

ARTICLE 13

Powers and Duties of the Board of Directors

- (a) Prepare the Plan, Budget and Report (every 2 years) of the Association which will be discussed and approved by the General Assembly.
- (b) Decide on matters related to the employment of the Manager and other requisite personnel of the 'Association'.
- (c) Monitor and evaluate the activities and performance of duties of the Director of the Board and Manager of the Association. The Board shall prepare administrative

- regulations and design appropriate policies in order to implement planned activities of the *Association*.
- (d) Ensure that the Board implements proposals and policies proposed by members of the *Association* and the Board, and prepare the long-term and short-term plans. The Board, based on the quarterly financial report, approves the management of the *Association*.
 - (e) Propose new members and suggest measures for dismissal of members, where good cause for dismissal can be verified, to the General Assembly for approval.
 - (f) Establish committees or task-groups from among the members of the *Association* to assist the Board in carrying out its duties.
 - (g) Take actions, propose solutions and arbitration on legal issues which affect the implementation and achievement of the objectives of the '*Association*'.
 - (h) Dismiss a member of the Board, where there is a good cause for such dismissal, and replace him/her by an individual from his/her institution whenever appropriate. Taking such an action requires the approval of the General Assembly in its next meeting.

ARTICLE 14

Duties and Responsibilities of the Director of the Board

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- (a) In consultation with members of the Board of Directors, the Director shall produce an activity program for the Board. The Director shall chair the meeting of the Board.
- (b) The Director shall represent the Board in meetings outside and within the 'Association'. The Director may delegate any member of the board in his/her absence.
- (c) The Director may delegate, as appropriate, his/her powers and duties to any one of the Board Members.
- (d) In cases where the Director of the Board may not be in a position to manage the activities of the Board, the Board shall replace him/her with another member of the Board.

ARTICLE 15

Office of the Association

- (a) The established office shall manage the activities of the *Association*.
- (b) The Manager shall accomplish the office of the '*Association*'.

ARTICLE 16

Duties and Responsibilities of the Manager of the 'Association'

- (a) Manages, supervises and monitors the day-to-day activities of the *Association*.
- (b) Opens the books of accounts of the *Association* and countersigns cheques, vouchers and bill transactions.
- (c) In consultation with the Board, the manager shall employ new staff, promote and terminate contracts of staff and coordinate the activities of the *Association*.
- (d) Prepares annual plans of the *Association*, submits annual plans and budgets to the General Assembly, implements plans after approval and reports to the General Assembly on the implementation of the plan. The Manager shall inform the General Assembly about policy issues.

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- (e) Represents the *Association* in various forums and acts as a spokesperson on matters concerning the *Association*. Moreover, the Manager may delegate any one of the employees of the *Association* to undertake such functions.
- (f) Carries out all other duties assigned to him/her by the General Assembly or the Board of Directors.
- (g) Delegates part of his/her responsibilities to other employees of the '*Association*'. The manager shall, however, be responsible for any wrongdoing or failure of a delegated employee to comply with delegated duties of the *Association*.
- (h) Prepares agenda for the Board. The Manager shall be a non-voting member and secretary of the Board of Directors.

ARTICLE 17***Audit***

The books of accounts of the *Association* shall be audited once a year. The results of the audit shall be submitted to the General Assembly. The audit responsibilities shall be based on the Ethiopian Commercial Law No. 374-376 of 1952

ARTICLE 18***Books of Accounts***

- (a) The *Association* shall maintain appropriate books of accounts.
- (b) The books of accounts of the *Association* shall be audited once a year and the results of the audit shall be submitted to the General Assembly.
- (c) The *Association* shall audit its books of accounts by a certified auditing institution each year. This audit report shall be distributed to relevant offices and to the General Assembly of the *Association*.

ARTICLE 19***Fiscal Year***

The fiscal year of the *Association* shall commence on January 1st and end on 31st of December.

ARTICLE 20

Source of Funds

The source of funds for the *Association* shall be:

- (a) Member's contributions; and
- (b) Donations from individuals, non-government organizations and government grants.

ARTICLE 21

Duration of the Association

The *Association* is established for an indefinite duration.

ARTICLE 22***Amendment of the Memorandum of 'Association'***

This Memorandum of *Association* may be amended, altered or revoked if one third of the regular members raise the issue and when the amendments are approved by two-thirds of the members of the General Assembly.

ARTICLE 23***Dissolution***

- (a) The *Association* shall be dissolved wherein two-thirds of the regular members advance the issue of dissolving the *Association*, and if it is approved by three-fourths of the members of the General Assembly.
- (b) In the case of dissolution of the *Association*, the properties of the '*Association*' shall be transferred to institutions with similar objectives.

ARTICLE 24

For issues not adequately covered under this Memorandum of 'Association', the Ethiopian Civil Code No. 404-482 shall be applied.

ARTICLE 25

By-laws and other Basic Operational Documents

The 'Association' may adopt or adapt by-laws and other regulations in harmony with this Memorandum of 'Association' in order to facilitate the activities of the 'Association'.

ARTICLE 26

Date Of Effect

This Memorandum of Association shall come into effect upon signing by the founding members of the Association and the approval of the concerned government authority.

March 29 1999, Addis Ababa.