



OUTREACH PERFORMANCE OF MICROFINANCE INSTITUTIONS: A CASE STUDY OF AMHARA CREDIT AND SAVING INSTITUTION, ETHIOPIA

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ABSTRACT

The aim of this study is to examine the outreach performance of Amhara credit and saving institution(ACSI), Ethiopia particularly the breadth and depth of outreach. The study employed ten years secondary data from the annual report of the institution (2004to 2013). Descriptive analysis was employed. The study finds that ACSI attempted to reach the underserved poor but still the demand for financial service remains high. Regarding to saving mobilization there is notable performance. The average loan size per GNI(Gross National Income) per capita during the study period decreases from time to time through the study period. ACSI's performance towards reaching the poorest of the poor is not negligible especially women get special attention by the institution. Therefore, based on the findings of the study even if ACSI has notable contribution with regard to breadth and depth of outreach performance but with particular reference to the number of people live below poverty line in the region ACSI needs to go further to reach and serve the poor people.

Key words: Microfinance, poverty alleviation, outreach, breadth, depth, performance

1. Introduction

For the past few decades inclusive finance is the hot developmental agenda in several countries to alleviate poverty and to attain this agenda government used micro financing as a program to serve for the underserved productive poor section of the society. The revolution of micro financing changed the attitude of governments of different countries after the notable achievement of Grameen bank established by Professor Mohhamed Yunus in 1976 in Bangladesh. The attitude that poverty can alleviate through providing substantial flow of credit and other related financial services to the underserved poor people motivates the government to include micro financing in their development program. . Microfinance has emerged globally as a key strategy that plays a pivotal role to break the vicious circle of poverty by reaching the poor and give opportunity to engage the poor in income generating activities and promote economic development. According to Bateman (2011), for more than three decades micro financing has been portrayed as a logical approach to intervene to alleviate poverty.

Consequently, developing countries suffer from sever poverty give their attention to intervene their development program through micro financing program. With respect to poverty alleviation, it is the core objective of the Ethiopian government (MoFED, 2002) to alleviate poverty by incorporating different poverty alleviation strategies in its overall developmental programs. Out of those poverty alleviation strategies intervening through supplying financial services dominantly loan and saving services by using microfinance institutions is considered as one of the crucial tool to curve the multidimensional effect of poverty. In this regard the microfinance institutions in Ethiopia are characterized by their contribution towards the alleviation of poverty. Particularly, Amhara Credit and Saving Institution (ACSI) is the largest and oldest micro finance institution in the country as well in Africa that contributes its share to alleviate poverty in Amhara region together with other stakeholders. The aim of this study is to assess the outreach performance of ACSI in the region and to provide brief overview of the performance of the institution in terms of breadth and depth of outreach.

1.1.Objectives of the study

The objectives of the present study are:

1. To examine the breadth outreach performance of ACSI
2. To examine the depth outreach performance of ACSI

1.2.Statement of the problem

Microfinance has emerged globally as a key strategy to alleviate poverty and promote economic development. So, to achieve this economic development, MFIs should reach the underserved productive poor section of the society those who faced problem to access the financial services from the formal financial institutions. So, reaching the underserved poor section of the society those excluded from accessing financial services from formal financial institutions is the primary objective of the micro financing program. Access to financial service and outreach are associated with giving opportunity to get capital and undertake economic activity that enables the poor to generate income.

The success of microfinance institutions in achieving their poverty alleviation objective has been revealed by many studies (khandker, 2003; Mahjabeen, 2008; Charles, James and Babatunde, 2011; Chowdhury, 2009). However, their positive impact on the socio-economic welfare of the poor is more or less dependent on outreach performance. This is reflected through the poverty lending approach of microfinance that is financing the poor means emphasized on the poorest of the poor (Robinson 2001). The roots of microfinance lie in a social mission of enhancing outreach to alleviate poverty (Ambe and Oney, 2014). So, reaching the poorest of the poor extensively means outreach performance of the MFIs. In this regard as per the knowledge of the researcher recent studies conducted on ACSI is scanty. So, this study tried to examine the status of ACSI with respect to the outreach (breadth and depth) performance.

2. Research methods

The specific data analysis method used in this study is descriptive analysis and used graphs, charts, average, percentages and tables. Secondary data from annual report of ACSI was collected and used for analysis. The study used ten years (2004 to 2013) data from annual performance report and other documents, magazines and manuals. Microsoft excel was used to analyze the data collected.

Under this study breadth of outreach was proxied by number of loan clients served, number of voluntary savers, average deposit balance per depositor and number of female borrowers (Ledgerwood, 1999; Schreiner, 2002; Rosenberg, 2009; Quayes, 2012; USAID, 2006).

3. Review of Literature

Now a days, since majority of their people is under poverty line and extremely vulnerable to risk and external economic shocks, developing countries integrated their major development program with different strategy to reduce the effect of poverty in terms of breadth and depth. Accordingly microfinance institutions are considered as the main tool in developing African countries to overcome the effect of poverty through accessing financial service for the productive poor section of the society who lack access for credit and other related financial services. Hulme and Arun (2009) indicated that the major reason for the development of microfinance institution is based on the assumption that the poor have the capacity to undertake income generating economic activities and curb the effect of poverty but are limited for lack of access to financial and other related services.

3.1.The emergence of microfinance institution

The history of microfinance that is the concept of providing of small credit to the poor is very old and can be traced to as long to the middle of the 1800s (Kannan and Panneerselvam, 2013). Today's micro financing program has its roots in the 1970s when organization like Grameen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus, when starting the modern microfinance industry (Otero, 1999). The revolution of microfinance in developing countries like from Africa boom after the notable achievement of reaching the poor by Grameen Bank of Bangladesh. Poverty is a major developmental problem in developing countries and the ultimate objective of most microfinance institutions is poverty alleviation and is being practiced as a tool to attack poverty over the entire world.

Despite recent economic growth at national level in developing countries including Ethiopia, poverty remains a serious problem for policy-makers and other government stake holders. To fight against poverty Ethiopian government established and implements different developmental programs. Among those programs intervene by using micro financing is well recognized by Ethiopia.

The emergence of Microfinance institution is a recent phenomenon in Ethiopia compared to other developing countries. The first microfinance service in Ethiopia was introduced in 1994 as an experiment and the microfinance industry has shown a remarkable growth since the early 1990s. As a result, to reach the poor households those are under served by formal banking system, the government tried to institutionalized and boost MFIs by formulating a legal and policy framework in 1996 through issuing proclamation no. 40/1996 that state licensing and supervision of micro financing institution.

Amhara credit and saving institution (ACSI) is the pioneer institution in Ethiopia licensed in 1997 (www.acsi.org.et) to extend small loans and other financial services to poor people in rural and urban areas to help them improve their income and overcome poverty. ACSI is the leading microfinance institutions served almost more than half a million client and highly acclaimed with its approach at national and international levels as it applies the best and workable participatory poverty-reduction model.

3.2. empirical studies regarding to outreach performance of microfinance institutions

Empirical work dedicated exclusively to poverty alleviation and outreach of microfinance program is relatively less. Some of empirical studies regarding to outreach performance of the MFIs are presented as follows

Congo (2002) in his study regarding with performance of microfinance institution in Burkina Faso indicate that MFIs outreach performance remains very low compared with potential demand, and the factors responsible appear to be both the refusal of most MFIs to mobilize local savings and the high costs of supply of micro financial services.

Ghalib (2013) studied how effective is microfinance in reaching the poorest in rural Pakistan. For the purpose of the study a primary household survey was employed and 1132 respondents were participated in the Punjab province of Pakistan. In order to make comparisons, borrower (treatment) and non-borrower (control) households are ranked by poverty scores generated by employing Principal Component Analysis. The study reveals that the depth of poverty outreach is significantly lower than what has been claimed by lenders. The overall study reflects on policy implications to enhance depth (as opposed to breadth) of outreach to address the needs of the

poorest of the poor in order to contribute meaningfully and effectively towards alleviating poverty.

Dzansi and Atiase (2014) enter the debate of the extent to which microfinance is able to reduce poverty by reviewing both empirical and normative literature. Based on the insight gained, they found out that microfinance is not fulfilling its original mandate of extracting the poor from poverty or vulnerability to poverty. The result of this study is not consistent with what the other related literatures argued. So, the suggestion given by the researchers was indicated the institutions need to assess their level of outreach especially scale.

Similar study carried out by **Ambe and Oney (2014)** in Cameroon on outreach and performance analysis of microfinance institution. The study compares the performance and outreach aspect of six selected MFIs with branches all over Cameroon against the African benchmark and found that MFIs in Cameroon are very open to default risk and do not manage their risk well. They are not depend on external sponsors and international financial support , as a result the institutions more focused on making profits; instead of reaching out to the poorest of the poor in the communities i.e. they are limited in terms of outreach.

Moreover, **Nawaz (2010)** in his microfinance and poverty reduction study noted that even microfinance has resulted in a moderate reduction in the poverty of borrowers, as measured by a variety of socio-economic indicators, but has not reached many of the poorest in the village i.e. there is limited breadth of outreach.

The major conclusion drawn from the above previous study was that the success of micro finance institution is highly depending on the outreach performance of the program.

4. Research results and findings

This section of the study discusses the descriptive result extracted from the computation of data of annual financial report. The first section discussed on the breadth outreach performance of ACSI and followed by the second discussed on the depth outreach performance of ACSI.

Table 1: Breadth and depth of outreach, 2004 – 2013 (in terms of USD)

Year		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
No. of active borrowers	M	249326	26708	268519	29163	28557	25440	24383	22239	25588	31701
			3		8	0	7	9	8	2	8
	F	101837	16773	268285	30608	42500	43317	43349	47259	51951	56358
			1		5	6	9	2	5	7	8
	T	35116	43481	536804	59772	71065	68758	67733	69499	77539	88060
		3	4		3	2	6	1	3	9	6
% of female		29%	38.6%	49.9%	51.2%	59.8%	63%	64%	68%	67%	64%
Gross loan (USD)		36,459,641	51,258,097	78,201,270	110,591,636	155,668,558	131,184,763	108,204,381	169,650,670	150,395,319	215,648,278
GNI per capita		130	160	180	220	280	340	380	390	420	470
Average loan size		79.8%	73.7%	80.9%	84.1%	78.3%	56.8%	42.0%	62.6%	46.2%	52.1%
Volume of saving		20,139,561	27,455,341	41,612,987	61,536,718	83,368,420	78,235,014	70,267,621	101,336,171	89,834,516	122,482,733
No. of vol. saver		13401	61721	85275	11183	44692	61169	70104	916166	110411	173488
		3			0	7	4	6		8	2

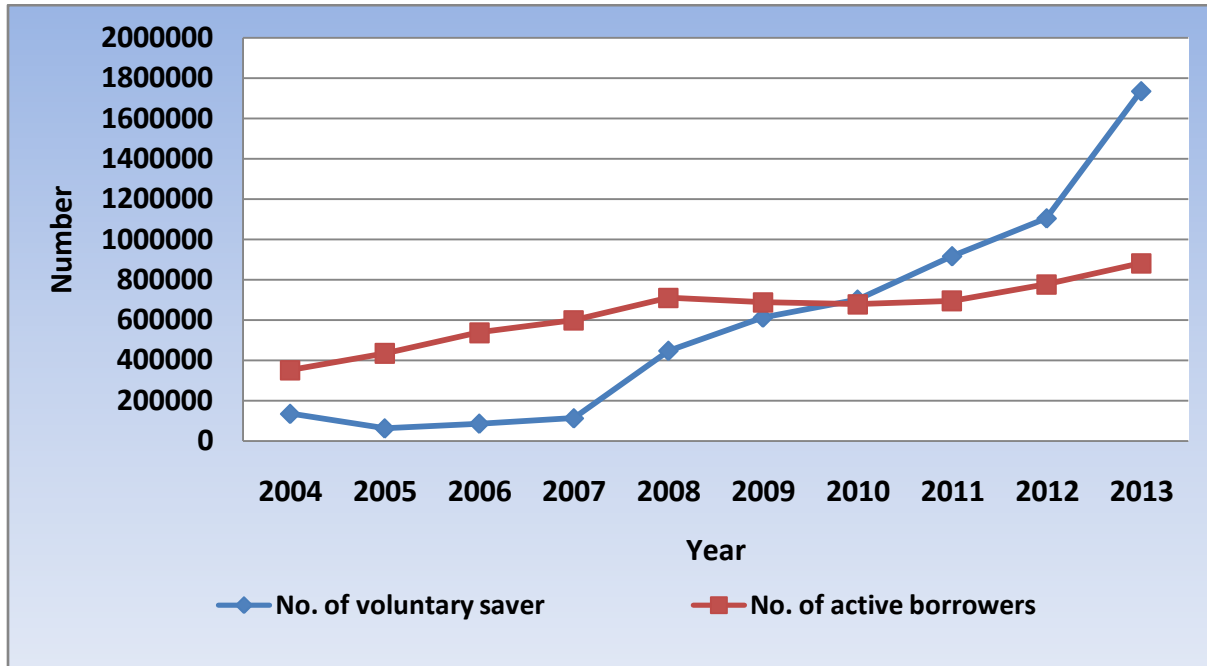
Source: ACSI annual report, AEMFI, author computation, World Bank data

4.1. Breadth of outreach performance of ACSI

Access to financial service and outreach are associated with giving opportunity to get capital and undertake economic activity that enables the poor to generate income. Assessing the number of clients being served by MFIs has been noted significantly as a proxy in various literature as a core performance indicator for a given MFIs regarding with breadth of outreach (Ledgerwood,

1999; Schreiner, 2002; Rosenberg, 2009; Quayes, 2012; USAID, 2006). Moreover, according to Woller and Schreiner (2004) and USAID (2006) the number of voluntary savers is also used as an indicator to measure breadth performance of MFIs. To this end, under this study breadth of outreach was proxied by number of loan clients served, number of voluntary savers, loan outstanding, volume of saving and number of voluntary savers.

Figure 1. Breadth of outreach for ACSI (Number of savers and borrowers)



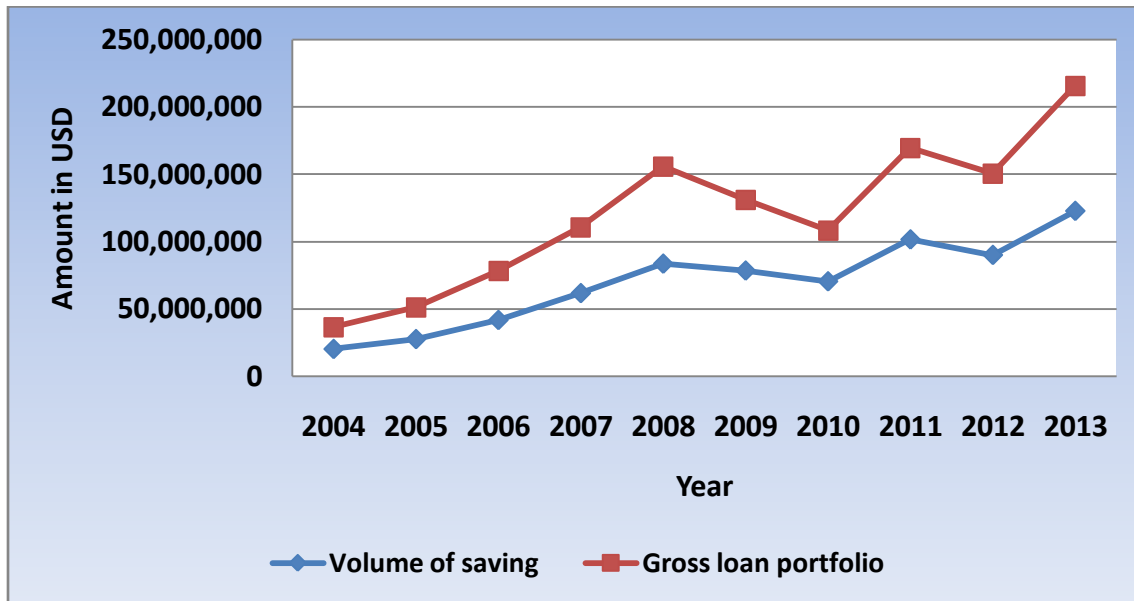
Source: ACSI annual report, annual report from AEMFI and Authors computation

Granting loan for the productive underserved poor people is the dominant service undertaken by microfinance institutions. Because it is believed that reaching the poor by extending financial service specially offering small size loan enabling them to curve the influence of poverty on their way of living standard.

As depicted by Figure 1 regarding with number of borrowers, ACSI has notable achievement in terms of outreach. The number of active borrowers increases from **351,163** in year 2004 to **880,606** in the year 2013. This borrowers figure shows 150.7 % tremendous increase from the year 2004 to 2013. It signifies there is a 10.2 % average annual increase. Even if there is a large proportion of poor people in the region but, this increase indicated that there is a great effort of the institution to expand and reach the poor. According oxford poverty and human development initiative (OPHI) country briefing (2013), out of the total population in the region 19,625,999

(BoFED, 2013) 74.6 % under severe poverty and ACSI served only 880,606 borrowers by 2013. Therefore one can suggest that ACSI's performance with regard to breadth of outreach aspect untouched and it needs to go further to reach the underserved section of the people.

Figure 2. Breadth of outreach for ACSI (Volume of saving and loan portfolio)



Source: ACSI annual report, annual report from AEMFI and Authors computation

Figure 2 also depicted that the volume of loan disbursement by ACSI from 2004 to 2013 and despite, slight decline in some years, the total loan disbursed (gross loan portfolio) increased from **36,459,641 USD** in year 2004 to **215,648,278 USD** in year 2013. More importantly, during the period from 2008 to 2013 the amount of loan disbursed increase by 491 % and there is average annual increase by 19.8 %. Having the above result, even if the figure indicated that the breadth of outreach of ACSI has been expanding in the Amhara region but, the demand for small amount of credit by the productive poor is still remained high in the region.

Based on the data given in figure 2 in 2013, despite, slight decline in some years, the volume of mobilized saving amount reached to **122,482,733 USD** from **20,139,561 USD**. It shows that there is a 508.2 % increase in saving amount from the year 2004 to 2013. On the other hand there is an annual average increase by 20%. It implies ACSI as a developmental institution it aggressively mobilized the saving outreach and this mobilization enables the institution to expand its service sustainably.

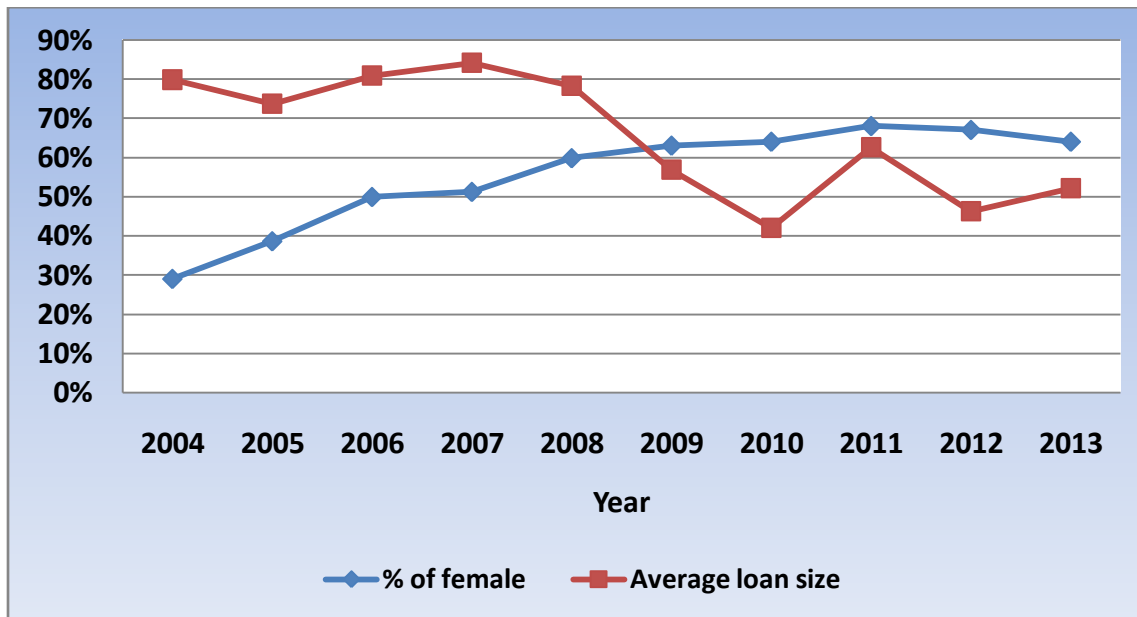
Similarly, Figure 1 depicted that there is an increment of the number of voluntary savers in ACSI i.e. **134,013** on 2004 to **1,734,882** on 2013. Depositors outnumber borrowers i.e. ACSI served almost two times as many voluntary savers (1,734,882) as borrowers (880,606). The trend of the past 10 years showed that there is a 28.45 % average annual growth rate of voluntary savers with a 20 % average annual growth rate of volume of saving. As a result ACSI's high average deposit balance implies that there is notable success on performance of ACSI on mobilizing saving and reach or extend its service to large number of low income clients. Moreover, as a result of increasing trend of saving mobilization ACSI becomes self sustained financially as well as operationally and reduce its dependency on others source of fund.

4.2.Depth of outreach performance of ACSI

Depth of outreach is an indicator of the social dimensions of performance or non financial performance of the microfinance institutions. Direct measurement of depth of outreach is difficult and for this reason average loan size is assumed as the proxy to measure the extent to which MFIs reach the poor section of the society i.e. types of clients reached and their level of poverty. There is a strong positive correlation between income level , the size of the loan and percentage of disadvantaged groups served such as women, rural communities, uneducated people, and ethnic minority and so on (Ledgerwood, 1999; Schreiner, 2002; USAID,2006; Cull et al., 2007;Rosenberg,2009; Quayes, 2012). The size of the loan can be interpreted as depth of outreach increases with a decline in average loan size that means , lower value of average loan size implies deeper outreach with an assumption of poor clients take small sized loans (Average loan size = Average loan balance per borrower divided by Gross national income per capita). Likewise, Osotimehin et al., (2011), in their study suggested that, for outreach to be enhanced, MFIs should concentrate on their average loan size as its major determinant

Hence, to make consistently with other studies conducted on microfinance performance average loan size per GNI and percentage of women clients from the total borrower are used as a proxy for depth of outreach performance in this study.

Figure 3: Depth of outreach, Proportion of female borrowers and Average loan size



Source: ACSI annual report, annual report from AEMFI, WorldBank and Authors computation

Poverty would be reduced if and only if women are properly targeted and addressed, on the contrary in Amhara region women’s access to various social and economic services is found to be relatively low. (BoFED, 2013). Serving women, highly vulnerable to poverty for several reasons, through accessing financial service enable to utilize women’s productive capital to alleviate poverty and bring economic development. Moreover, MFIs focused women clients for sustainability reason since women clients repayment rate are sure and higher than compared to that of men clients, they are better client as they are more inclined to save than men and they borrow smaller amount than men (Nasir, 2013).

As furnished data in figure 3, the proportion of women clients served by ACSI increased through the study period i.e. there annual average increase rate for the women borrowers with 9 %. The number of women borrowers from the overall active borrowers is also showed an increment trend i.e. from 101,837 in 2004 to 563,588 in 2013. The result signifies that ACSI has a remarkable performance regarding with serving the disadvantage poor people particularly, women in the region.

Table: 3. Share of women borrowers (2013) in large Ethiopian MFIs

	ACSI	DECSI	ADCSI	OMO
Percentage of women Borrowers (2013)	64%	25%	55%	31%

Source: AEMFI annual report, 2013

There are four dominant MFIs within Ethiopian MFI industry those perform well to address their objective of accessing financial service to the poor productive people. Among those poor productive peoples women's are too vulnerable to poverty. As a result MFIs focused on women clients and accordingly among those four largest MFIs in the country the proportion of women clients reached by ACSI is relatively high. It is an indication of devotion by the institution to reach women as a primary target for financial inclusion.

Moreover, to examine its performance concerning with depth, the study tried to see the average loan size granted to the poor. As depicted in figure 3 the trend of ACSI's average loan balance /GNI per capita (\$) is declined from 79.8 % in year 2004 to 52.1% in year 2013. And there is a 4.74 % annual decrease in average loan size through the study period. As per CGPA (2007) and Morduch (2000), core performance indicators for microfinance the lower the average outstanding loan per GNI per capita of the country, the better the MFIs reach the poorer section of the society. So, the trend of ACSI showed that there is a decline of average loan balance per GNI through the study period and indicates that it is serving the poorest section of the region.

5. Conclusion and recommendation

5.1.Conclusion

Regarding to the breadth of outreach ACSI record a notable achievement in terms of reaching large number of borrowers but compared to the number of poor live under poverty line in the Amhara region and one can suggest that ACSIs performance with regard to breadth of outreach aspect untouched and it needs to go further to reach the underserved section of the people. ACSIs performance with respect to mobilization of saving showed that depositors outnumber borrowers i.e. ACSI served almost two times as many voluntary savers (1,734,882) as borrowers (880,606). It signifies that there is a notable success and this should be encouraged because this status of saving balance enables the institution to reach or extend its service at large for low income clients.

Moreover, the depth of outreach performance is assessed and proxied in terms of number of female borrowers served and average loan size per GNI per capita. Serving women means empowering and making them active participant in the income generating activity and in turn a means to end poverty. So, the result of the study showed that ACSI achieved the objective of serving large number of women clients. Besides, as per CGPA (2007) and Morduch (2000) core performance indicator of microfinance is the lower the average loan size the better the MFI serves the poor. Therefore, the trend of ACSI showed that there is a decline of average loan balance per GNI per capita through the study period and indicates ACSI serving the poorest people in the region.

5.2.Recommendations

Even if there is a gradual increase performance to reach the low income client in terms of scope of outreach but, compared to the number of poor people in the region demanding microfinance service the performance is not adequate. So, management of ACSI needs to exert their effort towards the revision of existing strategies and formulate the new one as well to reach more financially underserved poor section of the society.

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