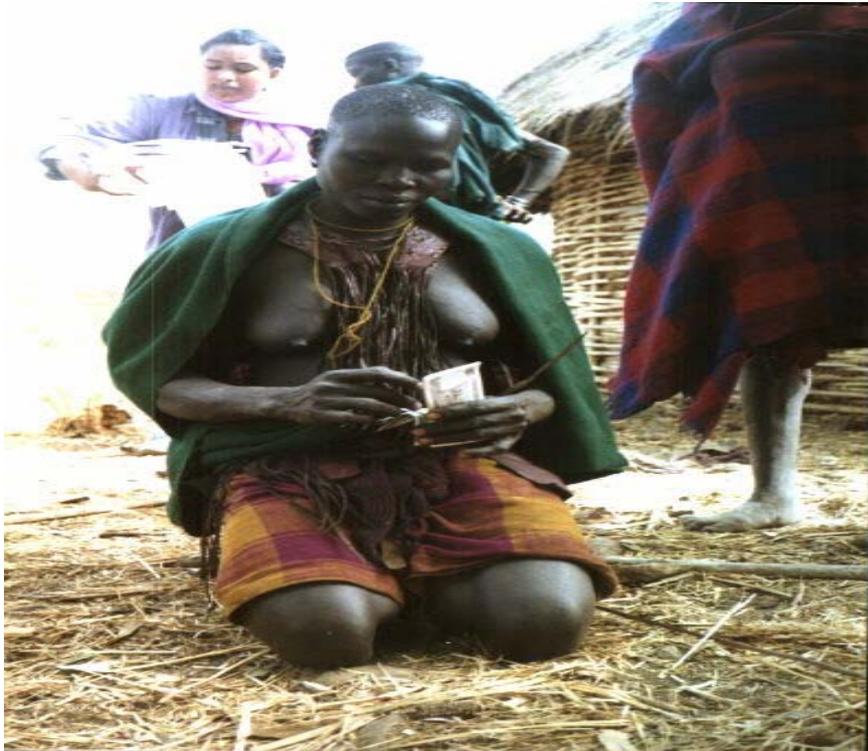


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**Multi-sectoral Program in Beles Valley and bordering areas  
 Ethiopia - Metekel Zone of Benishangul & Gumuz Regional State  
 Funded by the Italian Cooperation**

**1. BACKGROUND ..... 2**

**2. RATIONALE FOR THE MICRO-CREDIT INTERVENTION ..... 2**

**3. SUMMARY OF RESULTS ACHIEVED UNDER THE MSP ..... 3**

*APPROACH / LESSONS LEARNT ..... 3*

*ESTABLISHING A MICRO-CREDIT SCHEME ..... 3*

*CAPACITY BUILDING AND TRAINING ..... 4*

*OUTPUT ..... 5*

**4. SHORT PROFILE OF THE MICRO-FINANCING ACTIVITIES OF THE PROJECT ..... 5**

*GENERAL OBJECTIVE ..... 5*

*SPECIFIC OBJECTIVES ..... 5*

*OPERATIONAL STATUS OF THE SCHEME ..... 6*

*GROUP FORMATION ..... 6*

*SAVINGS ADMINISTRATION ..... 6*

*CREDIT ADMINISTRATION ..... 6*

*CAPACITY BUILDING ..... 7*

*COMMUNITY PARTICIPATION ..... 7*

*ESTABLISHMENT OF A PERMANENT MICRO FINANCING INSTITUTION ..... 7*

*MAJOR ACHIEVEMENTS ..... 7*

*LEGALIZATION PROCESS ..... 8*

*SWOT ANALYSIS ..... 8*

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## 1. Background

**Project Title:** "Multi-Sectoral Development Project in Support of Resettled and Indigenous Populations Residing in the Beles Valley and in Bordering Areas"

**Name of implementing agency:** Comitato Internazionale per lo Sviluppo dei Popoli (CISP)

**Funding Agency:** Italian Government

**Total Budget:** 2,786,036,000 ITL

During the mid eighties, the Beles Valley, in the Metekel Zone, was the target of a major settlement programme, by which approximately 80,000 people coming from drought stricken or overpopulated regions were transferred in the area.

The Italian Government supported the development of the settlement scheme, under the name of "Tana Beles Project". The project was based on highly mechanized technology and emphasized agricultural collectivization. It is at this time that CISP started its operations in the area, with the implementation of a program that was mainly relief oriented.

Following the establishment of the new Transitional Government, the EPRDF handed over the management of the Tana Beles Project to the Ministry of Agriculture. Under the new political context, the agricultural activity was privatized and land distributed to the settlers.

The development of smallholder agriculture determined deep changes in the production systems and in particular favored the introduction of animal traction and the end of mechanization. Meanwhile, the phasing out of the Tana Beles Project, and the regionalization policy being promoted in the country called for a new administrative restructuring of the area.

In this new context, the CISP, starting from 1992, carried out the second phase of the multi-sector program (MSP) focusing on initiatives that promoted the consolidation of family run enterprises and provided for greater involvement of the indigenous population. The programme ended in 1995, however while waiting for the starting of the third phase continued to operate, through a bridging phase, until the beginning of 1997. The third phase was officially started in March 1997 and completed in December 1999. From a strategic point of view, the programme intervened mainly in the field of rural credit and supply of agricultural inputs, local seed production, small scale irrigation, vertisoils management, veterinary services, micro-enterprise development and credit, health and sanitation, institutional capacity building and grass-roots management training.

## 2. Rationale for the micro-credit intervention

A study commissioned by CISP in 1994 indicated that finance is one of the main constraints for micro operators engaged in off farm employment and income generating ventures in the area. Similarly, another diagnostic study on household food security in Beles valley concluded that one of the major problems of the settlement area is inadequate credit service and lack of working capital to engage in income generating schemes.

Prior to the implementation of the pilot scheme, effort has been made to assess local needs and to study the communities' mutual self-help schemes such as Iddir and Equib, which are very popular among the community. The findings indicated that they have limited capacity in advancing financial services to their members. Apart from this, there was no micro financing institution operating in the area.

Another important reason to promote micro financing service was the need to inject additional resource in the area to provide further income opportunities to the communities. This is believed to encourage more off farm activities to diversify and augment households' income.

### 3. Summary of results achieved under the MSP

#### *Approach / Lessons learnt*

- It is believed that the provision of financial resources can stimulate the socioeconomic growth of rural populations, contributing toward the alleviation of poverty and better food security. Access to credit markets can significantly improve income generation, food consumption as well as nutritional status and education of the rural poor.
- The program strategy focused on the creation of a micro-finance share company that should operate at regional level and according to the National Bank proclamation n.407/1996. The specialized institution is expected to deliver sustainable and functioning financial market to all those active poor who are ready to engage themselves in productive income earning venture. To this end, the multi-sector program has launched a pilot intervention to test the viability and the efficiency of the adopted service delivery system (based on the Grameen Bank model). The experience and feedback gained in this period has provided knowledge base to decide on the possibility of institutionalization of the scheme on a full scale and permanent basis.
- The pilot scheme has followed the Grameen Model where clients organize themselves in small solidarity groups of five members, which in turn form an apex organization of six such groups. Prior to group formation potential groups were oriented on the objectives and operational principles, policies and the services available.
- Resorting to credit and saving markets is one important strategy employed by rural households to cope with transitory food insecurity in Beles Valley. Hence, improving households' access to inter-temporal markets (credit and saving products that require a transfer of resources over time) is considered crucial for **better food security**. Inter-temporal markets for credit and saving are seen as potential tools to offer households means to adjust their disposable income in different periods, by choosing the best time to allocate resources to investment rather than consumption and vice versa, in a way that is fast, cost effective and more appropriate to their needs.
- As a consequence, the approach is to develop demand oriented financial services offering different services in terms of maturity and use. In particular, considering that money is fungible and that production and consumption in rural households are intimately linked, consumption loans are included in the portfolio. Thus, it is privileged a cash credit system that leave choice of use to clients.
- Developing clients' trust by emphasizing the long-term viability and integrity of the institution and by developing simple and transparent rules. Clients participates in the definition and refinement of the operational modalities to adapt them to the local circumstances (i.e. loan ceiling, timing and modalities to disburse loans, etc.).
- The management of the pilot scheme adopts a participatory appraisal where clients fully participate in the administration of the service through their groups and centers meetings. Clients assume distinct responsibilities in the context of loan appraisal, repayment collection, follow up, and loan utilization.
- Promotion of savings is considered essential also to allow stabilizing households' consumption over time. In this context, the strategy is to improve liquidity and security and to reduce transaction costs so as to increase the risk-bearing capacity of poor households.
- Long-term financial viability of the micro-finance institution is considered essential to enhance the sustainability of the service. In this context, it is suggested to gradually charge market-based interest rates.

#### *Establishing a micro-credit scheme*

- A total of Birr 1,047,700 has been disbursed to organized clients.
- Definition of procedures with preparation of one credit manual and one credit policy document.
- Organized 1,263 clients into 84 centers. Out of these clients, 506 are female while the remaining 757 are male clients.

- Implemented credit activities resulting in the disbursement of 695,950 Birr's loans to 1,081 clients.
- Around 158,610 Birr of total saving by the clients.
- Developed mid-term work plan (plan of operation and financial projection) and one accounting manual as reference for the future activity of the credit scheme.



Photo: A Credit Center meeting

#### Capacity building and training

- One week training in micro-credit policy and management for both CISP and Line Departments staff (twenty-eight trainees attended the weekly course).
- Several weekly courses in credit management procedures to train 1,081 clients.
- On the job training in small business development for 1081 clients (through credit workers operating at grass roots level).
- Two training sessions in micro-finance management given to CISP Micro-Finance Staff, Centers & Groups leaders, and field workers. A total of 65 trainees participated in the training program with the participation of two trainers from the National Bank of Ethiopia.
- One regional workshop on credit policy and strategies for the establishment of one regional micro-financing institution. Experts from regional and zone concerned offices have attended the workshop with the participation of one focal person from the National Bank of Ethiopia.



Photo: Technical advice service by a credit field officer

## Output

- The experience acquired in micro-credit has provided the basis for the formulation of a regional credit policy. As a result, one regional share-company institution is currently under registration according to the national legislation (proclamation no ). This micro-financing institution is ready to take over the Beles Pilot Scheme and to start up operation in Assosa Zone (through the fund secured by CISP from EU).
- The pilot period has enabled the development of functioning and reliable operational modalities, with the delivery of credit service to a large number of active poor ready to engage in productive income earning ventures.
- As outcome of the credit service, local entrepreneurs have significantly increased their level of business, which in turn generated steady source of income. Among others, many clients have increased their capacity of investments in productive inputs (such as the acquisition of livestock, agricultural inputs, etc.) with a multiply effect on the local rural economy.
- Good access of women to the credit service. Around 381 credit clients are women (35% of total clients).
- Significant capacity building on micro-finance service at all level. The strong advocacy activity undertaken by the program at Regional level has represented a decisive step toward the institutionalization of the pilot initiatives and the adoption of a clear credit strategy. Specific know-how and management capacity on micro-finance has been strongly enhanced starting from the grass-root up to the Woreda and Zone Technical Offices. Intensive training programs have introduced better skills in credit management and in small business development.
- From a financial point of view, although the pilot scheme is not self-sufficient there is an attempt to develop clear business plans in order to decrease the dependence on external subsidies. To this end, the program has elaborated mid-term financial plans, which envisaged the progressive increase of income till reaching a break-even point. These documents are also necessary prerequisites for the legalization of the micro-finance institution.
- Based on the Beles experience, CISP has secured a fund from EU to support the new established credit institution. This program plans to provide loan capital to further extend the outreach of credit service (in Metekel as well as in Assosa Zone).
- The Beles pilot scheme has represented a clear reference for the formulation of a new proposal recently prepared by the Italian Cooperation. Although not yet official, a new intervention of the Italian Cooperation in Metekel Zone should include a component in support to the micro-credit activities. The acquisition of new fund is believed important to further consolidate the newly established regional institution.

## **4. Short profile of the micro-financing activities of the Project**

### General Objective

The overall objective of the pilot micro finance service is to create a sustainable and functioning financial market in Beles Valley where all those active poor who are willing, capable and ready to engage themselves in productive income earning venture can get easy access to financial services at their convenience.

### Specific Objectives

Based on the above general objectives the pilot scheme has defined the following immediate and specific objectives.

- Avail financial services to on farm and off farm micro entrepreneurs residing in Beles Valley of the Benishangul Gumuz National Regional State.

- Bring together the target clients of the scheme in cohesive solidarity groups for effective and efficient micro finance service delivery.
- Create a reliable savings facility and inculcate saving habit among the target population.
- Prepare the background and the nucleus for the future sustainable institutionalization of micro finance services in the region.
- Recruit and train dedicated and motivated staff for the promotion of micro finance in the region.
- Compile lessons learnt for the permanent institutionalization of the micro finance service.

### Operational Status of the Scheme

The pilot scheme has pursued the Grameen Model, as is the case with most of registered MFI's at national level. Clients organize themselves in small solidarity groups of five members, which in turn form an apex organization of six such groups. Prior to group formation potential groups were oriented on the objectives and operational principles, policies and the services available.

### Group Formation

The pilot scheme encourages interested and like-minded community members with no blood relation but with some similar social and economic background to form groups. After group formation, prospective clients were also given additional training on rights and responsibilities of members, group's share of the functions of service delivery. Accordingly, the scheme has organized 1,263 clients into 84 centers. Out of these clients, 506 are female while the remaining 757 are male clients.

As the pilot scheme has started its operation in an area where some 20% of the household is female headed, it has given priority and encouragement to women households. Out of the total clients organized under the pilot scheme, therefore, 40 percent are women clients.

### Savings Administration

Regarding saving the principal aim of the scheme is to inculcate savings habit by availing safe and easily accessible savings facility. Accordingly, clients have been making three types of savings namely:

- Regular mandatory savings
- Loan tax
- Personal supplementary savings

Thus, clients have saved a total of Birr 158,610.

As savings is the main source of fund that increases the lending capacity of the institution a lot has to be done to build the confidence of the clients and the public to use the savings facility available. Allowing clients to withdraw from their personal savings at any time and allowing clients to withdraw their loan tax after all group members settled their loans could be taken as elements of confidence building.

### Credit Administration

One of the main financial services provided to clients has been credit for economically viable and socially acceptable activities. Accordingly, a total of Birr 1,047,700 has been disbursed to organized clients.

#### **Summary of the pilot scheme**

No	Wereda	Savings	Credit		Interest
			Disbursed	Repaid	
1	Pawe	97375.25	668400.00	413,200.00	31580.10
2	Mandura	22,508.65	130,650.00	413,202.20	6596.30
3	Dangur	26,665.00	161,900.00	117,282.25	9277.75
4	Debate *	12,061.00	86,750.00	12,158.25	1,522.70
Total		158,609.90	1,047,700.00	618,553.15	48,976.85

\* The fund to expand to this area is obtained from EU

The financial service management of the pilot scheme adopts a participatory appraisal where clients fully participate in the administration of the service through their groups and centers meetings. Clients assume distinct responsibilities in the context of loan appraisal, repayment collection, follow up, and loan utilization.

In addition to the availability of the micro finance services, increased capacity of clients to utilize credit and develop enterprises and relevant skills is essential. To this end, the pilot office has put a considerable effort to build the capacity of clients through training. The training organized include:

- Training on credit management procedures
- Training on micro business development
- Group leaders training

### Capacity Building

Micro enterprise development training has been organized in two community-training centers in order to build the capacity of enterprising men and women and make the credit scheme productive.

Accordingly, two training programs, the first one focusing on bamboo work, which is available locally and the second one focusing on carpentry, weaving and spinning were organized and attended by 39 participants. As part of the capacity building endeavor and to enable the trainees utilize their skills best, they were provided with equipment and other materials necessary to start up productive activities.

### Community Participation

With the objective of involving the target population in the implementation of the pilot scheme and facilitate participation and collaboration of the administration for a successful pilot scheme performance, wereda advisory groups were established in each wereda. The advisory group in each wereda comprises Wereda Administration, Wereda Office of Agriculture, Peasant Association chairpersons, and elders.

A one-week training was organized on micro credit and management and attended by 28 participants from line departments. Similarly another workshop was organized on the Micro Finance Policy and the strategy to be followed for the establishment of a permanent institution at regional level was also organized for is some of such efforts.

### Establishment of a permanent Micro Financing Institution

The purpose of the pilot scheme is to gain experience, test the adaptability of micro finance service with the objective realities of the valley and ultimately create a permanent institution either through integration with a taking over partner or establishment of a micro finance share company.

Before embarking with the process in either direction, however, an assessment of the performance of the pilot scheme was conducted and the finding has generally reflected encouraging trends resulting in expansion in client size and geographic out reach.

CISP, therefore, has started the process of establishing the Micro Financing Institution, in line with the proclamation No. 40/96 under the Benishangul Gumuz Regional State. The establishment process, however, was started in consultation with the concerned bodies and discussing the procedures and identification of shareholding parties at the regional level.

As part of the consultation process, CISP has organized workshop on micro finance policy and on the strategy for the establishment of the regional micro financing institution for experts from Region and concerned Zone departments.

### Major Achievements

- The experience gained during the pilot period has provided knowledge base to decide on the institutionalization of the scheme on permanent basis.
- The viability of the service and the efficiency of the adapted service delivery system have enabled to lay down the foundation for self-sustaining micro financing service.
- The pilot period has enabled the development of functioning and reliable operational modalities.
- A field assessment has strongly indicated that the scheme has proven to be an effective response that stifled the household economic activity.
- Has enabled women to get access to credit facility

Moreover, the result a brief impact assessment study carried out on some clients has indicated that most of the clients have benefited from the micro finance service, increasing their capacity to generate steady income and ultimately increasing their capacity to invest in productive ventures.

### Legalization Process

The process of establishing the Benishangul Gumuz Micro Financing Share Company was started in March 2000. The Institution under formation has ten shareholders who are also the founding member owning 1000 shares altogether.

With each share having a value of Birr 1,000, the company has Birr 1,000,000 capital out of which Birr 300,000 is a paid up capital and the remaining Birr 700,000 being subscribed capital.

Four of the shareholders are organizations represented by individuals. These are:

- Benishangul Gumuz National Regional State council,
- Benishangul Gumuz National regional State Women's Association,
- Benishangul Gumuz Development Association,
- Bensishangul Gumuz National Regional State, Metekel Zone.

The remaining six shareholders are individuals representing the micro finance clients. Regarding the organizational structure, the institution has a ten-member general assembly of the shareholders as the supreme body of the institution and a five-member Board of Directors elected among the general Assembly.

The legalization process, which has been started in March 2000 with the submission of application to the National Bank of Ethiopia, is now at its final stage and most of the requirements have already been fulfilled. This includes among others the submission of the:

- Articles and Memorandum of Association,
- Opening of accounts and depositing the subscribed capital amounting 300,000,
- Business plan covering the first three years of the Institution,
- Curriculum Vitae of the Board of Directors, etc.

The process will be finalized soon.

### Swot Analysis

#### **Strengths**

- ◆ Clear operational modalities
- ◆ Good client organization
- ◆ Scale of operation progressively increasing
- ◆ Satisfactory levels of saving

#### **Weaknesses**

- ◆ Often, indigenous clients have low awareness and lack skills to conveniently exploit the credit opportunities
- ◆ Insufficient diversification of business leads sometimes to excessive competition and poor profitability
- ◆ High transaction costs limit expansion in more remote areas

#### **Opportunities**

- ◆ To legalize a regional micro-financial institution
- ◆ To hand over the pilot scheme to a legalized micro-financial institution
- ◆ To scale up the outreach of the service through different funding channels (i. e. EU and Italian Cooperation funds)
- ◆ To provide capacity building to the financial institution
- ◆ To benefit from an economy of scales to generate adequate income to reach operational self-sufficiency
- ◆ To undertake grassroots management training of clients

#### **Threats**

- ◆ Instability and insecurity in the operational areas
- ◆ Ambiguous policies that limit flexibility in the use of credit