

Busaa Gonofaa, Ethiopia

Busaa Gonofaa has the **vision** to “see the development of an inclusive, efficient and mature financial system that works for all people, rural and urban, the poor and the rich alike”. Its **mission** is to “provide flexible and efficient micro-financial services on a sustainable basis to enhance self-reliant livelihood of the resource-poor in rural and peri-urban areas in Oromia”. Its **target clientele** is “the economically active resource-poor that do not have access to formal financial services as well as rural active poor in drought secured areas of Oromia, especially, women, the landless youth and smallholder farmers”. Busaa Gonofaa “seeks to contribute to the economic betterment of its clients while getting returns on its investment”.

Social Performance Rating

Rating

In progress



Social Rating scales detailed on last page

Date of the rating

July 2007

Country Profile

Ethiopia	2005
Demography	
Urban population	16.2%
Life expectancy at birth	42.7
Education	
Adult literacy rate	45.2%
Gender	
Women in labor force	36%
Poverty lines	
Below \$1 a day	23%
Below \$2 a day	77.8%
National	44.2%
HDI	0.371
Rank out of 177 countries	170 th
See 'socio-economic environment' section	

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[REF:EJ / 29/0907]

Rating highlights

- The social mission is at the root of the creation of Busaa Gonofaa. Key decisions illustrate this orientation towards the achievement of social goals.
- Management systems related to social performance are currently being implemented or refined (policies, MIS, market studies, client surveys).
- The poverty status of clients is not yet measured but a poverty scorecard is currently being developed. BG has a focus on rural areas (66% of clients) and women (70% of clients). The goal to reach out more specifically to women-headed household and landless youth is not yet monitored.
- The product range is very limited in terms of amounts and durations despite a higher flexibility in loan use than in most MFIs. Market studies and satisfaction surveys have been conducted in order to better understand the needs of the clients. Results have been used to better adapt services (flexible loan repayment schedule).
- Reasonable level of transparency on the costs and conditions of services. Similarly to other Ethiopian MFIs, BG only communicates the nominal interest rates and charges this interest on a flat basis. Efforts have to be made on a sector-wide level to increase transparency on the cost of the loan.
- Policies and procedures are in place to guarantee a fair treatment of staff and prevent discrimination. Competitive salaries and comprehensive social benefits package position BG as a good career opportunity.
- Even if promotion and defense of fundamental human rights are not formally mentioned in BG's by-laws, HUNDEE's long-standing role of human rights advocator clearly irrigates Busaa Gonofaa's activities.

Indicators

USD, unless otherwise stated	Dec. 02	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Jun. 07
Social Performance Indicators (see also annexes)						
% of women clients	81.1%	82.3%	77.2%	57.2%	69.5%	na
% of rural clients	61.0%	51.0%	76.2%	52.3%	66.4%	na
% of group loan borrowers	100%	100%	100%	100%	100%	100%
Drop out rate (gross)	na	na	na	26.0%	19.9%	na
PAR > 31	4.1%	1.8%	3.9%	0.4%	1.2%	1.0%
Portfolio Yield	49.2%	48.3%	41.1%	31.4%	30.8%	29.7%
Institutional Performance Indicators						
Loan portfolio	190,036	241,787	239,005	890,451	1,115,126	2,002,367
Outstanding deposits (a)	-	52,015	84,604	136,322	260,261	368,505
Active borrowers	4,734	5,999	5,571	9,988	18,208	26,247
Active savers (a)	-	-	5,514	10,061	18,096	25,552
Staff	28	37	55	76	123	137

Refer to the GIRAFE rating for an analysis of the institutional performance indicators

(a) 100% mandatory savings

Socio-economic environment ¹

“Despite five years of rapid economic growth based on sound economic policies and high levels of aid, Ethiopia remains one of the world’s poorest countries, and the lingering effects of the severe drought in 2002/03 continue to be felt by many of Ethiopia’s 73 million people, especially the poor. The current growth rate is significantly higher than the average rate of 5 per cent per year recorded over 2001-04, under the Sustainable Development and Poverty Reduction Program (SDPRP). If this growth rate is sustained, Ethiopia will make considerable progress towards achieving the Millennium Development Goal (MDG) of halving income poverty by 2015. This optimistic scenario is threatened by high world oil prices, which are partly responsible for the widening budget and current account deficits, and the continuing political crisis stemming from the hotly contested May 2005 election results and its subsequent effect on donor support. [At US\$160, Ethiopia’s per capita GDP is less than quarter of the Sub-Sahara Africa average.]

...The government has launched [for the next five years] the second phase of the SDPRP, known as the Plan for Accelerated and Sustained Development to End Poverty (PASDEP)... The objectives of PASDEP are: i) annual economic growth of 7 per cent rising to 10 per cent by the end of the program, through massive investments in key anti-poverty sectors; ii) a sustained rise in agricultural productivity and production, with crop output rising from approximately 15 million tons per year to 38 million tons; iii) an emphasis on the textile, leather and floriculture industries, in an effort to boost exports.

... In spite of the increases in the food components of the agricultural products, food insecurity remains pervasive, requiring improved agricultural productivity through capacity-building, improved input supplies, technology adoption and the provision of infrastructure. During the PASDEP period, particular improvements to rural roads, irrigation systems, and better provision of extension and research services are to be emphasized... The government and humanitarian community are expected to continue providing assistance in 2007 to the 7.3 million or more Ethiopians who are chronically food-insecure through the Productive Safety Net Program (PSNP). Government spending was estimated at 26.3 per cent of GDP in 2005/06. Going forward, the aim of fiscal policy is to restrain the deficit while prioritizing poverty reduction expenditures in

the main sectors of health, education and agriculture. ...Poverty as measured by food consumption (the food poverty index) declined only moderately from 42 per cent in 1999/2000 to 38 per cent in 2004/05, while poverty rates as measured by income (the head count index) fell sharply in the rural areas from 51 per cent in 1999/2000 to 39 per cent in 2004/05. Urban poverty has declined more slowly. Given the strong performance of the economy and the agricultural sector, it is projected that the head count index will fall to 29 per cent by 2009/10. The failure of food poverty to decline in step with income poverty primarily reflects a substantial increase in the cost of food... Inflation stood at 6.8 per cent in 2005 and was estimated at 10.5 per cent in 2006, reflecting high food prices due mainly to rising aggregate demand, despite the good *meher* [main] harvest and the rising costs of inputs and market inefficiencies, as well as fuel-price increases... According to the Household Income Consumption Expenditure Survey 2004/05 (HICES), urban unemployment averaged 26 per cent, and ranged up to 40 per cent in the larger urban centers such as Addis Ababa.

... In terms of healthcare, the government has focused on areas such as malaria, tuberculosis and childhood diseases, as well as HIV/AIDS... By 2004, child mortality rates had declined to 166 per thousand, while infant mortality rates had decreased to 110 per thousand... According to survey results carried out in Ethiopia, 36 per cent of households had access to safe drinking water in 2004, compared to 19 per cent in 1996... Current net enrolment rates in primary and secondary schools [have more than doubled over the past 15 years and, in 2004,] stand at 46 per cent and 25 per cent respectively.

... During the SDPRP period, the government placed strong emphasis on the participation of women in the development process since improvements in women’s circumstances generally have positive effects on poverty reduction.”

¹ Extracts from [African Economic Outlook for Ethiopia](http://www.oecd.org/dataoecd/26/47/38562613.pdf), © OCDE, 2005-06 and 2007 - <http://www.oecd.org/dataoecd/26/47/38562613.pdf>. Planet Rating complies with OECD rights and permissions for material reproduction.

Socio-economic indicators

	²	1975	1990	2004/05
HDI	<i>a</i>		0.314	0.371
Rank out of 177 countries				170 th
Demography				
Total population (millions)	<i>b</i>	34.1	51.0	77.4
Urban population (% pop.)	<i>b</i>	9.5	12.7	16.2
Total fertility rate (birth per women)	<i>b</i>	6.8	6.8	5.6
Life expectancy at birth	<i>b</i>	44.1	46.9	42.7
Health & Nutrition				
Under 5 mortality rate (per 1,000)	<i>b</i>	..	198.5	162.9
Underweight of children < 5 (%)	<i>c</i>	..	47.7	37.1
Population undernourished (% pop.)	<i>b</i>	..	..	46
Access to safe water (% pop.)	<i>b</i>	8	27	22
Education				
Adult literacy rate (% of people ages 15 and above)	<i>b</i>	16.4	28.6	45.2
School enrolment ratio (%) ³	<i>a</i>	..	..	36
Gender				
Women literacy rate	<i>b</i>	9.1	19.8	38
Women participation in labour force	<i>b</i>	..	36.8	36
Poverty and inequality⁴				
Below \$1 a day (% pop)	<i>a</i>	..	..	23
Below \$2 a day (% pop)	<i>a</i>	..	..	77.8
National poverty line (% pop)	<i>c, a</i>	..	48	44.2
GNI per capita (current US\$)	<i>b</i>	130	180	160
Gini index ⁵	<i>b</i>	..	..	30
Environment				
Forest area (% of land area)	<i>c</i>	..	14	13
Arable land (% of land area)	<i>b</i>	10.6	8.9	9.7
Economy				
Total debt service (% of exports of goods, services and income)	<i>b</i>	4.9	30.7	4.9
Fixed line and mobile phone subscribers (per 1,000 people)	<i>c</i>	..	2.5	14.3
Agriculture (% GDP ⁶)	<i>b</i>	58	54	47
Industry (% GDP ⁶)	<i>b</i>	11	12	14
Service (% GDP ⁶)	<i>b</i>	31	33	39

² Source of figures: *a*- Human Development Report, UNDP, 2006; *b*- Gender, Poverty and Environmental Indicators on African Countries and Selected statistics on African countries, ADB, 2007; *c*- World Development Indicators database, World Bank, April 2006.

³ Combined gross enrolment ratio for primary, secondary and tertiary schools

⁴ Poverty lines were calculated at 1985 international prices adjusted for purchasing power parity: at 1993 international prices, \$1 PPP is equivalent to \$1.08 and \$2 PPP to \$2.15. At 2003 prices, \$1.08 PPP = 1.97 ETB. \$2.15 PPP = 3.93 ETB. As stated in the MDG report (Ministry of Finance and Economic Development and UNDP, 2004) the national poverty line is approximately 1.095 ETB/person/year i.e. 3.07 ETB/person/day

⁵ The Gini index was calculated in 2000 for Ethiopia

⁶ % of GDP at factor cost (constant 2000 prices); data for 1980, 1990, 2005

Microfinance sector

The Proclamation 40/1996 that set the original legal framework defined microfinance business as “an activity of extending credit, in cash or in kind, to peasant farmers or urban small entrepreneurs”. Even though microfinance services have since then been offered both in rural and urban areas, the majority of microfinance clients remains located in rural areas⁷, which is in line with the composition of the Ethiopian population. Considering that approximately 1.5 million clients are served by the 28 MFIs licensed by the NBE, the market coverage can be estimated to be between 10% and 20%⁸. Such an outreach has notably been ensured through the establishment of six federal government-supported MFIs serving 80% of the clientele as of December 2006. The market penetration widely varies across regions: an impressive performance of 84% penetration has been reached in Tigray where the biggest Ethiopian MFI (DECSI) operates, but penetration was estimated at only 13% in the Amhara region (ACSI), 6% in the Southern region, and 2% in the Oromia region.

Along with the liberalization of the regulatory framework over the years, the range of services offered by licensed MFIs has begun to widen in order to better address the various needs of the clientele. Originally allowed to offer exclusively group loans capped at 5,000 ETB (550 USD) for maximum terms of 12 months, most MFIs have designed their lending methodology on the Grameen model. Given the rural composition of the microfinance clientele, MFI have adapted their financial services to agricultural activities. Most microfinance institutions offer end-of-term bullet repayment loans that are suitable for animal husbandry or farming activities. ACSI and DECSI also provide food security loans to help farmers cope with food shortage at the household level. Other services (consumption and housing loans, micro insurance, leasing, local money transfer, payment and remittance services) are less developed and only provided by some MFI. Licensed MFI are allowed to collect public deposits. The evolution of the regulation, decreasing the bottom interest rate on savings from 7% to 3% (in 2002), has encouraged MFIs to collect savings in rural areas. Savings services are however

⁷ A socioeconomic profile of clients shows that 78 % of MFI clients reside in rural areas; IFAD, 2001

⁸ Two different estimates are available for the Ethiopian microfinance market:

- Occasional paper n° 18 by Wolday Amha, AEMFI, 2007: “there is very limited information (in-depth market research) to undertake detailed and relatively reliable demand estimate” Wolday Amha, AEMFI, 2007. This paper evaluates the potential market at 7.5 million clients, resulting in a penetration of 20%.

- Short Study on Microfinance, Ethiopia, February 2003, background documents country strategy 2003-2007, Jennifer Sebstad. Based on these figures, the global market coverage is approximately 10%.

less developed than credit services and the active depositors represent only approx. 30% of active borrowers.

Given maximum loan sizes initially set by the regulation, low segments of the clientele were primarily targeted while upper segments have only been served later on with the development of individual loans. However, even though microfinance providers have successfully reached a significant number of rural poor, remote rural areas and marginalized groups remain to be widely served. In particular female household heads, landless and youth have been identified as more prone to be excluded from financial services⁹ (women for instance represent only 38% of the microfinance clientele). It should also be noted that regulated microfinance services are absent from pastoralist areas, particularly in the Afar and Somali regions.

The ceiling on the lending interest rates of MFIs initially set by the regulation at 12.5% per annum was removed in 1998 allowing the MFI to set sustainable lending interest rates. As of December 2006, interest rates¹⁰ ranged from 8.7% (mainly government supported MFIs benefiting from subsidized funds) to 30.8% (including MFIs working in rural areas and lending small amounts). Most MFIs communicate on the nominal interest rates and charge this interest on a flat basis which does not guarantee an easy comparison of effective interest rates. The biased competition created by government subsidies is likely to hinder efforts that would need to be made on a sector-wide level towards increased transparency. Instances of over-indebtedness and cross indebtedness have already been observed in some areas, even if they remain pretty scattered. Given the high vulnerability of the target clientele and the difficulties lying ahead for the implementation of any credit bureau (lack of efficient national identity system; clients living in remote areas making it difficult to visit all client's homes) it seems important to discuss measures at sector level to prevent such risk or monitor its rise.

Social Performance Rating

■ Institutionalization of the Social Mission

Social Performance and Strategy

A clear intent to achieve some social impact was at the root of the creation of Buusaa Gonofaa. The precise social mission and vision have been defined based on an intuitive knowledge of the social challenges of the area and on the experience gained by BG's mother organization Hundee. Links between Hundee and BG are still very tight (Board Members are almost all drawn from Hundee; the ED used to work for Hundee) which has draw backs in terms of diversity of experiences but guarantees that the vision and mission are widely shared among all stakeholders.

Key decisions illustrate this orientation towards the achievement of social goals: development of a methodology to reach out to deep rural areas (Rural Savings and Credit Facility –RSCF– serving clients living 50-60 km away from the towns), choice of strategic partners that share the same social commitment (Terrafina, CIDR), development of a poverty scorecard, satisfaction surveys. This commitment has been consistent along the life of the institution. The governance of the structure is however still pretty informal, which leads to insufficient documentation of important decisions such as the launch of the Employee Loan in 2005, that was justified by the need to diversify risks and reach profitability but had important implication in terms of social performance. These implications were nevertheless anticipated and understood by the management and Board who set limits for the development of this type of loans (20% of the portfolio).

Social Performance Monitoring

Consistent with Buusaa's genuine concern about its social performance, the institution that currently uses a manual information system has already included a few indicators related to social performance in the monthly reports provided by the branches (men/women ratio; rural/urban clients ratio; drop out data). Few client level data is collected in the application forms (age, marital status, distance from the main town) and is not processed in a way that makes it useable as of now. This information that is too coarse to allow a real management of social performance has been complemented by occasional client surveys (client satisfaction, impact studies) whose scope, professionalism and precision have increased over the years (143 clients in 2002¹¹, 265 clients in 2005¹², 1200 clients in 2007).

⁹ Occasional paper n° 14 by Wolday Amha, AEMFI, 2005

¹⁰ Approximated by portfolio yields

¹¹ 75 in individual client surveys and 68 in focus group discussion

Buusaa's marketing department is currently working on the development of a poverty scorecard that will be included in all application forms and will be captured in a specific database. There is no real plan so far to integrate these indicators in the main loan tracking software which might lead to higher cost/ longer time/ less possibilities for cross-analysis of loan data and client-level data. The request to include these social performance indicators in the new computerized MIS has however been submitted to the software provider.

Since the creation of the Internal Audit department, the verification of the accuracy of some "social" data (drop-out essentially) has been included in the scope of the audits. The audit of the newly created poverty scorecard or of occasional surveys has not been planned for or budgeted yet but is highly compatible with the Internal Auditor's approach to his responsibilities (that encompasses procedures adherence and data accuracy verification but also client protection).

Staff Mobilization

Despite a lack of efficient monitoring tools, the management of Human Resources seems to ensure a generally good adherence of staff to the institution's social goals. Staff, and more specifically field staff, is notably selected based on their commitment to the improvement of life conditions in rural areas and usually have a rural background. The induction process includes a short presentation of the social mission and vision and the newly introduced performance evaluation includes some items related to social performance (goals in terms of % of women clients, % of rural clients, % of drop out). The evaluation system has already been revised to avoid individualistic behavior and favor the achievement of collective goals. Induction and evaluation processes will be further refined when social performance goals and indicators will have been more specifically defined.

Field staff has been involved in the new initiatives related to social performance (LO participation in the pilot of poverty scorecard) and it is likely that their understanding and skills in the management of social performance will increase in the coming years.

■ Outreach

Client targeting

Poor rural populations of the Oromia region (and more specifically women) have been chosen as the target clientele. This constitutes a relatively broad target and

¹² Including 35 non-clients

current indirect targeting mechanisms ensure that it is reached: branch location (no branch in Addis Ababa) and areas of operations (up to 20/25 km away from the main district towns), products adapted to agricultural activities cash flows, small loan amounts that would not fit the needs of more well-off clients, absence of physical collateral, etc. Buusaa is not planning on defining more precise targeting criteria or on developing individual targeting tools.

A 10-indicator poverty scorecard is currently being finalized. It is not planned to use this tool to select clients, but rather to monitor the composition of the clientele, to measure the changes in the clients' poverty status, to segment the target market and refine the loan products according to the needs of the various segments. Maximum percentages of "not-so-poor" or "well-off" might be set if a drift towards these segments is seen.

This tool is being developed with a reasonable methodology (asset valuation and income survey coupled with the test of intuitive poverty indicators; initial survey on 221 clients, definition of 10 indicators, validation of the scorecard and refinement of weighing based on a survey on 700 clients) but its current design does not ensure that it will be possible to benchmark that score with national or international poverty lines. Initial stages of implementation of this tool will need to be closely monitored given that LOs who administered the questionnaire have raised concerns about the interrogation process (each client in isolation but during the disbursement meeting in an open-field) and the sensitive character of some questions (meat consumption, hunger) that might yield unreliable answers on some indicators and thus alter the global accuracy of the measurement.

Outreach to the poor and the excluded

The institution has the intention to reach out to the poor and more specifically to the rural poor, women-headed households and landless youth, and is actively working on the development of tools to really track its achievements on that front. Some recent studies already allow to have some indication on the poverty status of Buusaa's client even if none of the studies are yet sufficiently robust to provide nationally or internationally benchmarked data.

A combination of general statistical data about the composition of poverty in Ethiopia and general characteristics of the clientele can be used to give very rough indications on BG's clientele poverty status but clearly cannot be used to compare BG's poverty outreach with that of another institution:

- Data for Ethiopia report 44% below the national poverty line, 26% below 1 USD/day PPP, 81% below 2 USD/day PPP.

- 66% of Buusaa’s clientele live and work in rural areas, where the incidence of and severity of poverty is higher than in urban areas (52% in rural areas and 36% in urban areas; IFAD, 2007¹³).
- Food insecurity chronically affects more than 10% of the Ethiopian population and notably some of the districts of the Oromia region where Buusaa operates. In 2007, Bale district (where Dodola branch is located) is specifically affected due to the poor performance of the March to May rains¹⁴. Sululta-Mulo and Jida Wuchale (where Chanco branch is located) are frequently affected by droughts and food shortages. During the 2005 client survey¹⁵, 45% of the clients indicated suffering from food shortages at least 2 months per year.
- 70% of Buusaa’s clients are women. In Ethiopia, a strong conservatism pervades gender roles, severely prescribing what women can and cannot do, especially in rural areas. Women only represent 36% of the formal labour force which contributes to increased poverty for women as they are limited to informal sector and low income, unskilled and labour intensive activities¹⁶. The proportion of female-headed households is rising, and in rural areas their position is made more vulnerable by social conventions (ban on ploughing etc.) that cause them to have to sharecrop their land out to others¹⁷.

Loan processing in general and group self-selection mechanism can induce social exclusion mechanisms that go beyond the pure necessity of credit risk control. This phenomenon will be easier to monitor and regulate once the poverty scorecard is implemented.



¹³ <http://www.ruralpovertyportal.org/english/regions/africa/eth/index.htm>

¹⁴ FEWS (Famine Early Warning System Network); a USAID funded activity; www.fews.net

¹⁵ Preparation for the poverty scorecard (asset valuation, income assessment and poverty status); 221 clients

¹⁶ African Development Bank; appraisal report institutional support project to the women’s affair office; 2003

¹⁷ PASDEP report 2006

Breadth of outreach

BG does not serve a significant portion of its target population (only 18,000 clients when the total estimated demand is of several millions). Some competitors are better positioned to provide services to a significant proportion of the target clientele (OCSSCO).

Service Offering

Service design and client satisfaction

BG only offers loan service. Saving services have not been developed so far to avoid the difficulties and risks associated to the management of savings with a manual information system. Savings collection might be developed in the medium-term.

The loan product range remains very limited in terms of amounts and durations despite a higher flexibility in loan use than in most MFIs (BG loans are “general purpose” loans since inception). The initial product design (a one size-fit-all incremental group loan product) was meant primarily to fit the needs of rural women involved in petty trade. BG has since 2002 had the good practice of conducting market studies and satisfaction surveys, in order to better understand the needs of the clients and adapt the services accordingly (more flexibility in loan repayment is now possible; the level of the commission was reduced). The methods used for developing and pilot testing products (notably the RSCF) now include all necessary steps.

Past surveys results showed reasonable client satisfaction with the services. Even if the first initiatives of surveys did not bring very robust results, they helped increase BG’s expertise in the field of market surveys. The tools are now more mature, with more refined processes and the results of the next satisfaction survey (based on 1,200 client and ex-client interviews) should provide actionable results, despite remaining weaknesses of the survey process:

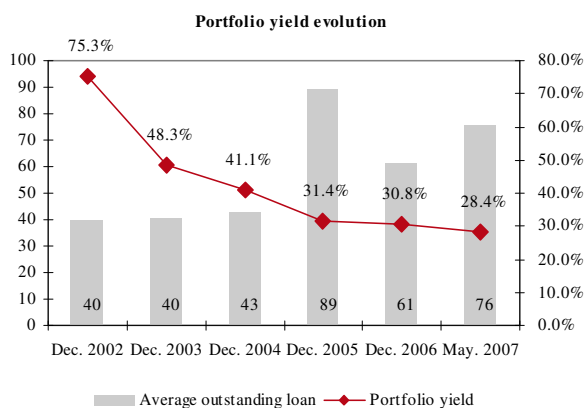
- Buusaa still faces challenges in the field of random client sampling due to the manual MIS and to the lack of information regarding client addresses (clients can only be reached during reimbursement meetings and ex-clients can only be found “by chance”).
- Surveys are now sub-contracted to an external consultant that however does not have prior experience in statistical studies or social surveys; an insufficient supervision of enumerators could also lead to incomplete questionnaires or invalid answers that might reduce the size of the effective sample.

Drop-out data have been compiled for several years but are not really being used. Several elements are still missing for a good follow-up and analysis of drop-out data: norms for acceptable drop-out rates have not been defined; no

systematic exit surveys are conducted that could allow BG to identify with more precision the reasons for drop-outs. Current drop-out rates vary between 20%¹⁸ and 40%¹⁹ (20% when active first loans are included; 40% when considering only clients that have had to decide whether they wanted to renew their loans and thus excluding active first loans from the calculations).

Cost of the services

The effective interest rate ranges from 25% to 60% when including the cost of mandatory savings. If this cost of savings is taken out, the average effective interest rate stands at 30% (ranging from 22% to 42%) which is within international benchmarks and is reasonable for an institution that lends very small amounts in pretty scattered rural areas. Indeed, even if its loan offering is pretty similar to its competitors, BG lends relatively lower amounts (124 USD average loan per client for OCSSCO; 115 USD for Eshet; 76 USD per client for BG) and is thus pretty naturally charging higher interest rates (see table). No investigation has been conducted so far to try and streamline the loan process and reduce costs for the clients. The net benefit for clients of the fact that LOs travel to their places has notably not been evaluated.



Modifications in the loan reimbursement schemes (from weekly or monthly to term loans) and the development of the employee loan have initiated a decrease in interest rates. The strategy for the coming years does not specifically define the future trend on interest rate. The competitive pressure should however lead to a gradual decrease of interest rates.

Social Responsibility

Client protection

Loan conditions are reasonably transparently communicated to clients (contracts written in Afaan-Oromo

¹⁸ 1 - (End clients / (beg. Clients + new clients))

¹⁹ 1 - ((End clients - active first loans/new intakes) / (beg. Clients + new clients - active first loans/new intakes))

are read out and explained to clients by Branch Managers during disbursements, contracts and vouchers specify principal and interest amounts). Similarly to other Ethiopian MFIs, Buusaa Gonofaa only communicates the nominal interest rates and charges this interest on a flat basis. Efforts have to be made on a sector-wide level to increase transparency on the cost of the loan.

Informal systems are in place to ensure that clients will receive an equal and respectful treatment (all clients know branch managers, they can come and present their complaints to him). Random visits to clients by the Internal Auditor is also an occasion to identify cases of client dissatisfaction or mistreatment, but more communication on this more formal complaint mechanism could even further reduce the risks of staff misbehavior.

Over-indebtedness is not yet monitored systematically even if some initiatives have already been taken in branches where microfinance offering is more developed. Given the relatively limited microfinance offer when compared to the total demand, over-indebtedness is not yet a major issue in Ethiopia but will be difficult to prevent with traditional mechanisms given the absence of a reliable national identification system. A sector-wide initiative will be necessary to find an efficient solution.

Human Resources Policy

A pretty informal but participative and respectful management of Human Resources has recently been formalized and translated into a Personnel Manual that spells out transparent procedures. Standard recruitment practices have consistently been applied for several years, a salary grid has recently been implemented which sets clear rules regarding bonuses, salary increases and promotions that are all linked to annual evaluations. A revision of the training methods and training plans is underway and aims at developing internal capacities for training. In addition to internal trainings dedicated to increase staff productivity and efficiency, staff is encouraged to take on studies to increase their “social capital”. Their work plan can notably be temporarily adapted to fit exam constraints.

Buusaa Gonofaa has decided to position itself as a good career opportunity relative to other microfinance institutions, thanks to competitive salaries (defined based on a survey on salaries provided by other MFIs), comprehensive social benefits package (annual leave above national standard, health and life insurance, severance fund, etc.).

There are no permanent staff representatives, but staff has been widely solicited to provide its opinion on the newly defined personnel manual, which led to amendments of the

latter. Procedures are defined to deal with staff complaints that give a say to a specifically-elected staff representative.

Work at Buusaa exposes staff to specific risks (potential traffic accidents linked to frequent travels to repayment sites for LOs, potential attacks linked to cash transportation for LOs and cashiers). So far, some basic and incomplete measures have been taken to protect staff from these risks (helmet provided to some but not all LOs, LOs or cashiers sometimes carrying cash alone). However, it is to be noted that instances of accidents or theft has been low so far (one motorbike accident, one case of attacks on LO while transporting cash from collection point to office on foot).

Social Responsibility to the Community

Even if the promotion and defense of fundamental human rights is not formally mentioned in BG's by-laws, Hundee's long-standing role of human rights advocator clearly irrigates Buusaa Gonofaa's activities. The focus on women in particular is seen as a way to contribute to the promotion of women's rights (LO are notably asked to give attention to potential dominance of the male over female members in the groups). The institution has however not yet defined its precise role regarding reduction of child labour and development of school attendance.

Buusaa Gonofaa endeavours to be a responsible actor in its market and has put in place strict policies and severe sanctions regarding frauds, briberies or corruption acts that could be perpetrated by staff. BG has however not developed an operating mode that protects bank privacy (transactions are conducted outdoors and are thus more or less public).

BG sets out to respect and strengthen local communities and skills: it has put in place systems that are modeled on locally popular structures (*iqub*) and its staff is drawn from the local communities and knows the local language and culture. The rural savings and credit facility (RSCF) currently being pilot tested in deep rural areas is self-managed (with the technical assistance of Buusaa) and is bound to further develop local skills.

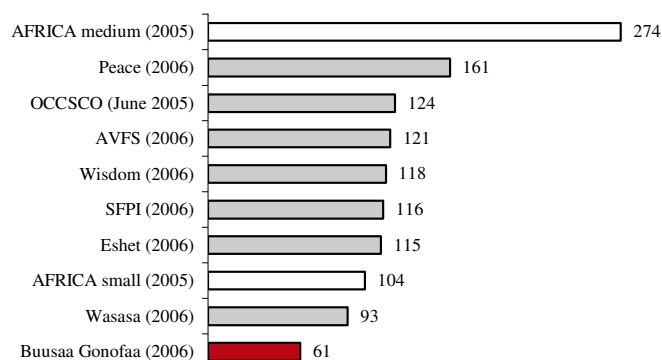
Social Responsibility to the Environment

Buusaa Gonofaa does not have specific strategies yet related to the direct or indirect environmental impact of its activities.

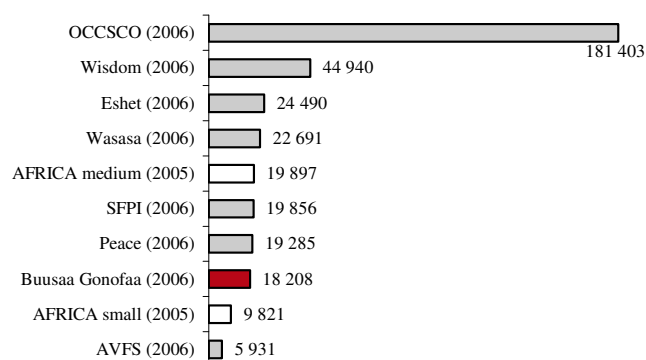
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

■ Benchmarking

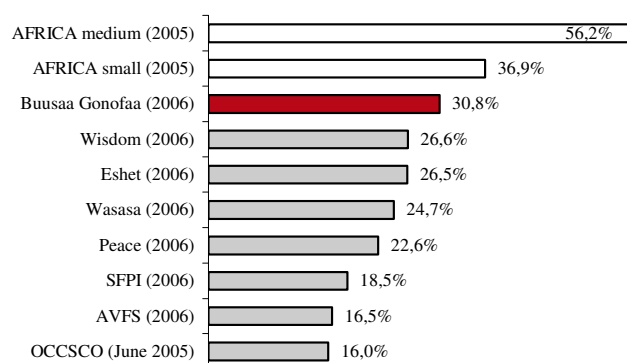
Average outstanding loan per client



Active borrowers



Portfolio Yield



■ Performance indicators

Social performance indicators currently being tested by the social performance taskforce (SPTF) and MixMarket for social performance reporting

Composition of the clientele	Dec. 2005	Dec. 2006
% of women clients	57.2%	69.5%
% of rural clients	52.3%	66.4%
% of clients for socially marginalized groups	na	na

Entering clients

% below national poverty line	na	na
% in bottom 50% below national poverty line	na	na
% below 1 USD / day PPP per household member	na	na
% below 2 USD / day PPP per household member	na	na
% below national poverty line	na	na

School enrollment

% primary school age girls	na	na
% primary school age boys	na	na
% secondary school age girls	na	na
% secondary school age boys	na	na

Appropriateness of services

PAR	0.4%	1.2%
Drop-out rate (gross)	26.0%	19.9%

Achievement of change (3-year or 5-year clients)

% who have moved above the relevant poverty line	na	na
% still below the relevant poverty line	na	na
School enrollment of children of clients	na	na
% primary school age girls	na	na
% primary school age boys	na	na
% secondary school age girls	na	na
% secondary school age boys	na	na
# of full-time hired and salaried employees in enterprises supported during the year	na	na
# of part-time hired and salaried employees in enterprises supported during the year	na	na
# of hired and salaried seasonal employees in enterprises supported during the year	na	na

■ Formulas

- Portfolio yield: Portfolio revenue / 13-month average gross outstanding portfolio
- Cost of savings ratio: Interest and fees paid on deposits/Average deposits
- Cost of borrowings ratio: Interest and fees paid on borrowings/Average borrowing
- Turnover (gross): $1 - (\text{End clients} / (\text{beg. Clients} + \text{new clients}))$
- Turnover (net of active first loans): $1 - ((\text{End clients} - \text{active first loans/new intakes}) / (\text{beg. Clients} + \text{new clients} - \text{active first loans/new intakes}))$

■ Rating scale

Rating	Definition
5	Advanced: Long-lasting commitment to social goals; efficient management of social performance and social responsibility risks; institution very likely to achieve a positive social impact
4	Convincing: Clear commitment to social goals; reasonable management of social performance and social responsibility risks; institution likely to achieve a positive social impact;
3	In progress: Clear intent to reach social goals; social performance management systems being implemented
2	Incipient: Clear intent to reach social goals; low capacity to manage social performance
1	Intangible: Intention to reach social goals is non tangible; low level of management of social performance