

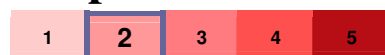
AVFS, Ethiopia

“The **vision** of AVFS as a Micro Finance Institution today and as a registered Bank in the future is to provide a variety of accessible, reliable, efficient and profitable financial services throughout Ethiopia to micro and small scale enterprise operators to [...] contribute to the economic development of the country”. The **mission** of AVFS is “to provide [these] financial services [in a sustainable way] to small and micro enterprise to increase their profitability and to create employment opportunities with special focus on women’s enterprise”. The **target clientele** of AVFS is “small and micro enterprise operators with more focus on women and those who have self owned and managed business, employ one or two employees, are engaged in the manufacturing and service, construction, transport, trade or agriculture sectors, and plan to improve and expand their production or diversify their products and services”. Main **objectives** of AVFS are “to create jobs for self-employment and employment to others thus contributing to both the micro and macro economic aspect and private sector development, and to improve, expand and diversify the operations of enterprises, which will contribute to increase incomes and improve the lifestyle of the entrepreneur and his/her family”.

Social Performance Rating

Rating

Incipient



Social Rating scales detailed on last page

Date of the Rating

August 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	

Planet Rating Contact

Edouard Sers
esers@planetrating.com
+33 (0)1 49 21 26 30

MFI Contact

Mrs. Kibre Dawit
avfs@ethionet.et
+251 (0)11 320 47 32
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Institutionalization of the Social Mission

- Social mission shared among stakeholders but has proven difficult to realize up to original expectations (in terms of outreach) and to prioritize in strategic decisions as AVFS still has to face sustainability challenges.
- Very few indicators defined in line with social objectives given MIS limitations.
- Staff receives adequate training about customer handling.

Outreach

- Strong outreach to women and small enterprises not ensured by target mechanisms.
- Clients’ poverty status not measured; small proportion of target population served.

Service Offering

- Loan service range still limited compared to some competitors, but loan terms and purposes have been made more flexible. Voluntary savings products planned to be better adapted to the clients’ needs.
- High estimated drop out rate so far not calculated. Formal market/satisfaction survey not conducted yet.

Social Responsibility

- Reasonable level of transparency on the costs and conditions of services. Similarly to other Ethiopian MFIs, AVFS only communicates the nominal interest rates and charges this interest on a flat basis. Efforts have to be made on a sector-wide level.
- Fair treatment of staff ensured through sufficiently well formalized procedures. Women well represented within staff. New and fairer staff compensation policy.
- Clear rules concerning the financing of illegal activities implemented by staff.

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	na	na	na	na	53%	47%
% of rural clients	na	na	na	na	na	na
% of group loan borrowers	100%	100%	96.8%	68.1%	66%	70.5%
Drop out rate	na	na	na	na	na	na
PAR > 31	9.7%	12%	22.7%	16.8%	31.2%	31.2%
Portfolio Yield	27.0%	22.2%	22.3%	19.2%	16.5%	26.9%
Institutional Performance Indicators						
Loan portfolio	198,214	253,186	374,084	741,057	719,357	864,208
Outstanding deposits	47,063	74,634	114,328	186,078	218,806	268,076
Active borrowers	2,146	3,054	3,383	5,591	5,931	7,545
Active savers	2,146	3,054	3,383	5,595	5,937	7,557
Staff	22	31	44	52	63	75
Refer to the GIRAFE rating for an analysis of the institutional performance indicators						

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 inequality ⁴				
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 Mission and Strategy

Since AVFS inception in 1999, achieving vision and mission up to original expectations has been a challenge. AVFS has the intent to achieve some social impact through microfinance services focused more on women and designed for micro and small enterprise in order to enhance job creation. However, the social mission needs to be slightly re-evaluated or clarified based on the evolution of the context: defined eight years ago by the board members and the Managing Director, the social mission as it is stated has proven to be difficult to realize in a satisfactory way in terms of outreach to women and small enterprises. Moreover, the shared vision of transforming AVFS into a registered bank has not been fulfilled yet. AVFS vision and mission are nevertheless shared among stakeholders. The mission is communicated to staff during monthly meetings, spread on flyers and posted in the branches. It should be noted that these posters could be updated and harmonized.

AVFS facing important sustainability challenges, it has been difficult to systematically integrate the social mission in strategic decisions and planning. As a result, key decisions are driven by profitability purposes and some of them are not compliant with some facets of the social mission. In particular, the expansion to untapped rural areas with similar target groups but unchanged target mechanisms has made more difficult the outreach to women. Besides, although some new products – such as the individual loan, agriculture loan, consumption loan, and leasing – have been launched to meet the clients' demand, their success have been only informally evaluated and accurate forecasts have not been made.

Social Performance Monitoring

AVFS has hardly initiated any social performance monitoring system. Very few indicators are defined and monitored in line with social objectives. The men/women ratio is reported quarterly to the NBE and detailed in the annual report per loan product in terms of amounts disbursed. Reporting to the board may also include information about the proportion of women and the product development plan, but not in a standardized way. AVFS has witnessed the decrease in the proportion of women in its clientele and has taken measures however not yet sufficient to reverse this trend. As a matter of fact, outreach to women is not formally evaluated. The number of job created,

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

¹⁰ Approximated by portfolio yields

though defined as a social objective, is not monitored (except for the still very limited equipment leasing loan).

As a matter of fact, the numerous MIS limitations make it difficult for AVFS to monitor its social performance.

- The diversification of the services is not monitored on a regular basis since TMS has not yet been installed correctly enough to provide in a reliable way the breakdown of the clientele by products.
- Unbalances between the manual follow up and TMS data do not allow obtaining regularly fully reliable client-level information.
- Valuable information is collected in the application forms such as the social status of clients, their living conditions and the number of employees but cannot be used to monitor social performance since it cannot be processed in the MIS.

AVFS has not recently conducted client studies to get a better idea of its social performance but plans to conduct an impact assessment study at the end of 2008.

Staff Mobilization

The management of Human Resources ensures only partially the adherence of staff towards AVFS social goals.

- The recruitment process does not take into account the applicants' commitment to social goals but nevertheless pays attention that loan officers have the minimum skills to handle customers properly.
- During the orientation, the social mission is orally communicated to new staff. Additional trainings dealing notably with customer handling have been provided to branch staff by the Administrative Officer who previously received it from AEMFI. Customer service manuals are available to all staff and thumb rules are spread in the branches.
- Staff evaluation has so far not focused on the implementation of the social mission. There is no incentive system that fosters behaviors likely to improve the institution's social performance

Staff input is taken into account during monthly meetings when loan officers and branch managers report about clients' complaints and the difficulty to reach out women. Social performance achievements are shared during these meetings and may be formalized in minutes which are however not shared back with all staff. A formal social performance reporting to staff could enhance their mobilization to implement the social mission.

Outreach

Client Targeting

Small and micro enterprise operators living in Addis Ababa or surrounding untapped rural areas have been chosen as a target clientele. A more focused targeting to women and small enterprises has proven to be difficult to achieve with AVFS target mechanisms.

- The geographical targeting of AVFS is based on a formal – though vague – assessment of the market and on the existence of traditional social structures in the potential areas. Branches located in rural areas are less than 50 km away from Addis Ababa, as AVFS does not have the capacity to expand to remote rural areas. Formal feasibility or market studies assessing the main social challenges of the potential areas have not been conducted yet.
- AVFS intends to focus more on individuals who have self-owned and managed business and employ one or two employees. These criteria are filled in the application form but are not all selective: whereas clients have to be self-employed, only few of them employ staff. In practice, clients are selected on their reputation in the community: applicants should provide an ID or a recommendation letter granted by the *Kebele*¹¹ or should have been a member of the same *Edir*¹² for at least six months.
- Although women are defined as an important target group in the social mission, strong enough target mechanisms have not been put in place to ensure their outreach. AVFS nevertheless encourages women to apply and works in some branches in partnership with bureaus of the Women's Affairs Office¹³.

The only target in terms of clientele composition is the proportion of women. It has been set at 75% but AVFS achieved only 53% as of December 2006. As TMS data are not fully reliable and need to be reconciled with Excel follow-up, the tracking of this target by branch and sector of activity is not regularly formalized.

Outreach to the Poor and the Excluded

No nationally or internationally benchmarked data is available on the poverty status of AVFS clients. Even if AVFS does not select its clients according to their poverty or exclusion status, the institution is likely to reach poor people. A combination of general statistical data about the

¹¹ The *Kebele* is the smallest administrative level

¹² *Edirs* are informal group based savings and credit associations

¹³ Bureaus of the Women's Affairs Office (WAO) are established in all regions and administrative zones. The WAO is technically charged with responsibilities to oversee and coordinate activities leading to the effective implementation of the National Policy on Women.

composition of poverty in Ethiopia and general characteristics of the clientele can be used to make very rough assumptions about AVFS clientele poverty status, but clearly cannot be used to compare AVFS depth of outreach with another institution. The following information is thus only provided to draw a rough picture of the institution's clientele:

- Data for Ethiopia report 44% below the national poverty line, 23% below 1 USD/day PPP, 78% below 2 USD/day PPP.
- As of June 2007, 47% of AVFS clients were women. Conservatism also 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 activities¹⁴. 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 others¹⁵.
- Through its Holeta and Sendaffa branches, AVFS serves clients living in rural and semi-urban areas less than 50 km away from Addis Ababa. However, AVFS has not the capacity to report on the proportion of its clientele living in rural areas, where the incidence and severity of poverty is higher than in urban areas (52% in rural areas and 36% in urban areas; IFAD, 2007¹⁶).

AVFS does not monitor or control the potential social exclusion mechanisms that can classically be induced by credit procedures and go beyond the pure necessity of credit risk control (self selection of group members can lead to exclusion of some clients based on social characteristics or social prejudices: female household heads or landless and youth might be considered as financially unreliable by more well-off community members).

Breadth of Outreach

AVFS does not serve a significant portion of its target population (only 9,358 clients as of June 2007 when the total estimated demand is of several millions). Some competitors, such as ADSCI (benefiting from subsidized funding and support of local authorities for its commercial development), are better positioned to provide services to a significant proportion of the target clientele. It should be noted that the growth of AVFS portfolio has been notably hindered by a high drop out rate and challenges in terms of portfolio quality, profitability and funding (see GIRAFE report).

¹⁴ African Development Bank; appraisal report institutional support project to the women's affair office; 2003

¹⁵ PASDEP report 2006

¹⁶ <http://www.ruralpovertyportal.org/english/regions/africa/eth/index.htm>



Service Offering

Service Design and Client Satisfaction

AVFS offers four loan products, as well as mandatory, voluntary, and non-clients savings. The loan service range remains quite limited¹⁷ compared to the offering of some competitors operating in Addis Ababa (SFPI, ADSCI) who have made their authorized amounts more flexible since the cap of loans was softened in the legislation¹⁸. AVFS has made the effort to grant agriculture loans, but clients still have to repay in several bullet repayment (every six months) that might not fit the cycles of all their agricultural activities. On the other hand, the maximum authorized term of business loans has been increased (up to two years) and the purpose of group loans has been widened to consumption and housing. It should be noted that AVFS is limited in widening its services range as sustainability has not been reached yet. The design of these products has originally been inspired from the Grameen model and has been later adapted to a limited extent through feedback from operations. These feedbacks formalized in management minutes were taken into account when decreasing the interest rates and increasing the maximum loan size and term.

AVFS intends to better adapt to the clients' needs the voluntary deposit products currently offered. Aside from the fact that voluntary savings have suffered from the amazing drop out encountered in 2006 and 2007,

¹⁷ Authorized amounts are ranging from 300 ETB (33 USD) to 8,000 ETB (877 USD) both for group and individual loans.

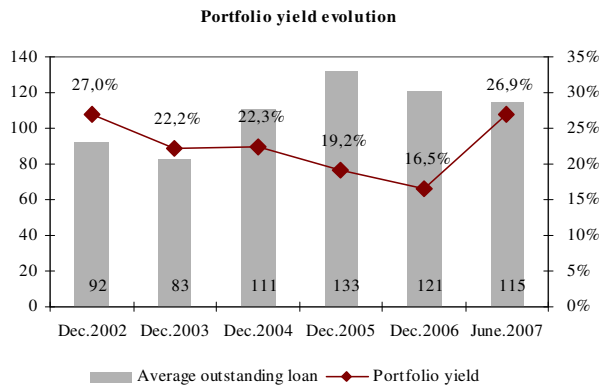
¹⁸ Established first at 5,000 ETB (550 USD), the cap of loans was softened in the legislation. However, the total loan amount lent by the MFI should remain below 120% of the preceding year's total disbursement and the loan size should remain below 0.5% of the total capital of the MFI.

operational structures and MIS need to be developed to face risks associated with the management of savings. The recent and very progressive launch of non-clients saving product has highlighted these issues.

Despite an estimated high drop out rate, client exit has not been systematically monitored and analyzed. Current available information does not allow calculating a reliable drop out rate¹⁹. A drop out study was conducted a while ago in 2005 on 23 clients. According to this study and more recent feedbacks from operations, most ex-clients exited after receiving a consumption loan that met their needs. Though useful to understand some reasons for drop out, these informal feedbacks do not provide actionable results as a formal satisfaction survey would provide to improve client satisfaction.

In order to better address clients' needs, AVFS is willing to diversify its loan and savings offering but has to face several challenges such as the adaptation of operational structures for the development of savings products, the limited funding for the leasing product (5 loans have been granted with EU funding; 40 more loans are planned to be granted with Terrafina funding) and regulatory constraints on house construction²⁰.

Cost of the Services



The average effective interest rate of group loans ranges from 28.6% to 35.2% when including the cost of mandatory savings, which is within international benchmarks. This can be considered as moderate in Addis Ababa given that some competitors are granting group loans of higher amounts: the average loan balance per borrower is 121 USD for AVFS against 116 USD for SFPI, 115 USD for Eshet, 140 USD

¹⁹ A simple, though imperfect, formula can be used to calculate the drop out rate: '1 - End clients / (beg. clients + new clients)'. However, only the number of loans disbursed (and not the number of new clients) is available.

²⁰ According to AVFS, most clients do not own legally the land on which their house is built and – since the new federal land administration and use proclamation was enacted – need to lease it from the regional government before constructing anything on it.

for Gasha and 168 USD for ADSCI²¹. Individual loans are – surprisingly – more expensive with an average effective interest rate ranging from 33.7% to 77.8% when including the cost of mandatory savings.

Even if financial and transaction costs supported by the clients are moderate, it should be noted that sustainability challenges have made it quite difficult for AVFS to further reduce costs supported by the clients. For example, clients receive on their savings the minimum interest rate authorized by the NBE (3%), which is lower than the rates offered by most competitors²². With respect to the cost of providing services in rural areas, it is voluntarily shared between the clients and the institution: reimbursements are collected half-way from the clients' homes and AVFS branches. However, AVFS has recently decreased its interest rates charged on group loans in order to face competition and come up to clients' expectations. Such a decision is not contributing to AVFS self sufficiency and may not be representative of the future trend on AVFS interest rates. As for the collaterals costs, although collaterals required for solidarity loans are low – group guarantee and approval from the *Kebele* –, the cost of default supported by group co-members has not been quantified.

■ Social Responsibility

Client Protection

AVFS loan conditions are reasonably transparently communicated to clients: contracts are written in Amharic, read out and explained to clients by loan officers during orientation meetings; loan schedules on passbooks specify principal, interests, and commission amounts. On the other hand, contracts lack of details on the savings conditions such as the level of compulsory savings and the interests on savings. An initiative has been taken to improve passbooks by specifying the total amount paid at each instalment and quarterly, but the new passbooks are not correctly filled. As other Ethiopian MFIs, AVFS only communicates on 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.

The equal treatment of all clients is sufficiently guaranteed. Clients may complain to branch managers if necessary and straightforward guidelines related to customer service encourage staff to ensure that clients have the opportunity to voice their concerns. Moreover, clients may complain

²¹ Data reported for 2006 on the Mix Market website

²² Interests paid to clients on savings range from 3% to 6% - Wolday Amha, AEMFI, 2007

regularly enough to the internal auditor, although his visits are not especially focused on this issue.

AVFS has made some efforts to limit the over-indebtedness of its clients through the occasional sharing of clients' list with other MFIs at branch level. 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

The management of Human Resources ensures a fair treatment of staff where main procedures are sufficiently well formalized in the Human Resources manual:

- Formalized recruitment procedures (job announcement, interviews, contract and salary grid) ensure fair hiring practices.
- Evaluations are well-formalized but are performed so far only once a year. The strong internal promotion culture has been recently formalized into a career path that makes it even clearer for staff how to reach higher positions. However, staff training relies mainly on a limited number of training sessions provided by donors, received by the management team and later shared with field staff. In addition, AVFS has adapted working hours to allow staff going on courses and develop their skills and employability.
- Women are fairly represented within staff (46% in 2006, 44% in 2007) and in particular within the management team, the MD being a woman. AVFS performs well in this regard as the low participation of women in the economy is a general issue in Ethiopia.

A new and fairer staff compensation policy has been implemented in January 2007 in reaction to high staff turnover. Moreover, AVFS provides an insurance that covers health expenses up to 1,500 ETB (164 USD).

There are no permanent staff representatives, but monthly management meetings give staff the opportunity to voice their concerns. This has allowed staff to be efficiently represented in recent decisions, such as the increase in the salary levels and the release of the provident fund.

AVFS has not made yet significant efforts to protect field staff from risks related to their job. However, most trips to rural areas are made in cars and AVFS plans to provide an accident insurance for cashiers and loan officers.

Social Responsibility to the Community

AVFS takes part to informal meetings held with some other MFIs to enhance fair competition on the Addis Ababa Microfinance market. One of the main output consisted in posting in MFIs' premises (occasionally for AVFS) some basic information (name, logo and phone number) about the different microfinance services providers. The main objective has been to enhance the visibility of non governmental MFIs. All Addis MFIs being stated on the posters, this initiative also fairly improves transparency on the Addis Microfinance market. However, formal mechanisms have not yet been put in place to avoid that some clients cumulate loans in different MFIs.

In addition to and through its services, AVFS participates in the development of social and economic services for the community. The development of partnerships with community-based, governmental and non-governmental organizations is a stated objective of AVFS. Previously, loans were exclusively granted to members of *Edirs* in order to enhance AVFS integration in the community. However, outreach to more clients has been prioritized when the institution decided to work also with Kebeles. As for joint work with other non-governmental organizations, it is currently limited to a partnership with the Gemini Trust²³ concerning 200 clients of AVFS.

Committed to social values and human rights' respect, AVFS has been promoting those. Clear rules have been set concerning the financing of illegal activities and are implemented by staff. Nevertheless, AVFS has not taken any initiative against child labor. As far as AVFS is concerned as a financial institution, bank privacy is sufficiently ensured through its operations: only AVFS clients may assist to financial operations, client data is protected and exclusively disclosed to authorized parties, and recovery mechanisms avoid public disclosure of client repayment problems.

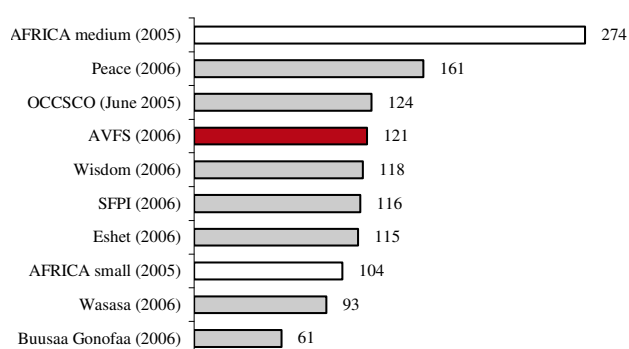
Social Responsibility to the Environment

AVFS does not have specific strategies yet related to the direct or indirect environmental impact of its activities but intends to make some efforts in the future to provide orientation to clients in partnership with specialized organizations.

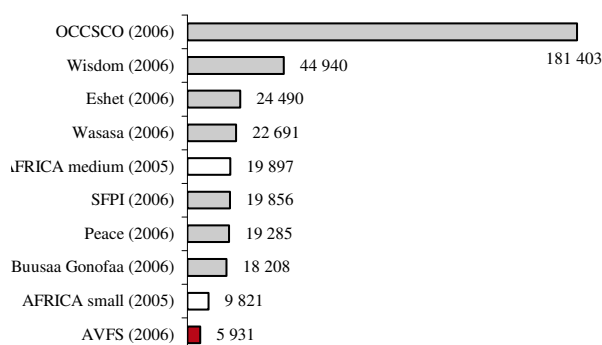
²³ The Gemini trust is an Ethiopian NGO providing support (health care, education, etc.) to twins and twin-mothers in Addis Ababa.

Benchmarking

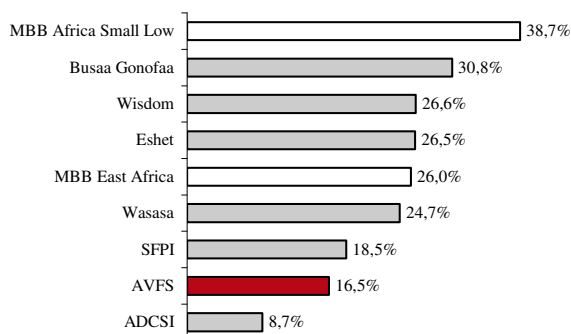
Average outstanding loan per client



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	na	53,0%
% of rural clients	na	na
% 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	16,8%	31,2%
Drop-out rate (gross)	na	na

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