

SFPI, Ethiopia

The **vision** of Specialized Financial and Promotional Institution (SFPI) is “to see poor people especially women to be fully accessed to institutional credit for self-employment, to see poverty eradicated both in rural and urban Ethiopia, and to see the emergence of self-reliant and business-minded generation”. The **mission** of SFPI is “to facilitate the socio-economic empowerment of underprivileged people both in rural and urban Ethiopia, to promote and develop research, policy and practices that encourage the improved access of poor people to support services such as training, credit, technology, information, professional and technical advice, and to ensure that its operations as well as that of its clients are financially and economically viable and sustainable”. SFPI **targets** active poor both in Addis Ababa and its surrounding rural and peri-urban areas. The **social goal** of SFPI is “to enhance the socio-economic empowerment of disadvantaged people especially women, by giving them access to services such as training, credit, saving and technical assistance”.

Social Performance Rating

Rating

In Progress



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
t: +33 1 49 21 26 30

MFI Contact

Mizan Kidane
PO Box 10689, Addis Ababa
+251 11 6622780
sfpi@ethionet.et

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Institutionalization of the Social Mission

- Clear intent to achieve some social impact, especially by reaching out active poor and mobilizing savings. Social goals could however be further taken into account in the strategy.
- Social performance monitoring has been initiated within the limits of the current MIS (men/women ratio, dropout ratio, percentage of voluntary savings).
- Staff mobilization towards social goals sufficiently ensured thanks to adequate hiring policies and evaluations (based on client retention, savings mobilization).

Outreach

- Broad targeting to the active poor. Targeting to women (55%; still below the objective of 60%), to clients living in rural and semi-urban areas (48%), and to youth (loan to the unemployed youth under testing).
- Clients' poverty status not measured; small proportion of target population served.

Service Offering

- Recently widened but still limited loan products range. Adaptation of loan and savings services to the clients needs clearly initiated thanks to informal feedbacks from operations and preliminary clients' studies. Formal satisfaction survey not conducted yet. Regular monitoring of the drop out ratio (17%).

Social Responsibility

- Reasonable level of transparency on the costs and conditions of services. Similarly to other Ethiopian MFIs, SFPI only communicates the nominal interest rates and charges this interest on a flat basis. Efforts have to be made on a sector-wide level.
- Policies in place to guarantee a fair treatment of staff and prevent discrimination. A fairer staff compensation policy has been approved and is to be implemented soon.

Indicators

USD, unless otherwise stated	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Jun. 07
Social Performance Indicators (see also annexes)					
% of women clients	65%	60%	55%	54%	na
% of rural / semi-urban clients	na	na	na	na	48%
% of group loan borrowers	na	na	na	na	na
Drop out rate (gross) ¹	na	na	na	17%	na
PAR > 31	4.4%	7%	8.3%	7%	8.2%
Portfolio Yield	23.1%	21.1%	19.2%	18.6%	21.8%
Institutional Performance Indicators					
Loan portfolio	847,854	1,156,457	1,590,772	2,311,017	2,691,400
Outstanding deposits	438,509	483,816	610,835	818,621	956,901
Active borrowers	9,552	11,604	14,345	19,856	22,221
Active savers	9,552	11,604	14,345	19,856	22,221
Staff	53	65	75	88	86

Refer to the GIRAFE rating for an analysis of the institutional performance indicators; ¹ See formulas

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

■ Social Performance Management

Social Mission and Strategy

SFPI has a clear intent to achieve some social impact, especially by reaching out active poor and mobilizing voluntary savings. Vision and mission are shared among main stakeholders but could be more systematically communicated to clients. Having identified some social challenges in rural and urban areas, SFPI has expanded in both: while first areas of operations were located in Addis Ababa, SFPI has since then also expanded to more financially excluded peri-urban and rural areas, notably (but not only) to avoid the competition from government supported MFIs.

SFPI social mission could be better integrated in strategic decisions and planning. Recent decisions include the opening of branches in rural and peri-urban areas and the development of new loans in partnership with stakeholders sharing the same social commitment (cooperative loans with the European Development Fund, and youth loans with Terrafina). On the other hand, the articulation between sustainability and social performance could be improved: expanding to rural areas is consistent both with the social mission and growth, but interests charged on agriculture loans may not be high enough to offer a sustainable service. SFPI needs to inquire into this. With respect to planning, some social objectives have been formalized in the business plans, namely a drop out rate inferior to 10% and a proportion of women of 60%. The latter (57% as of March 2007) has some chance of being reached soon. As for the objective of conducting market surveys, it has not been fulfilled yet, although it has been planned since 2002.

Social Performance Monitoring

Social performance monitoring has been initiated within the limits of the current MIS. Some indicators are defined in line with social objectives (men/women ratio, average loan size, dropout ratio, percentage of voluntary savings), reported quarterly and more deeply analyzed every six months. Recommendations are taken into account by the management and reported to the board. The SEEP frame tool for reporting used by SFPI since 2006 and the related trainings received by the Monitoring and Evaluation Officer have allowed a more accurate calculation of the dropout ratio. This reporting format should soon be customized to include the percentage of voluntary savings. The number of job created through cooperative loans is reported separately to the EDF.

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

¹⁰ Approximated by portfolio yields

However, raw data used to build these indicators is processed through a manual system that includes some limitations:

- Indicators result from data that are not fully reliable (see GIRAFE report) and that are not yet checked by internal audit.
- Very few client level data that could be used to monitor social performance is collected in the application forms (age, marital status, family members, source of income, estimated capital) and is so far not processed in the MIS. If SFPI decides to collect data on the social status of its clients, the next update of the MIS TMS seems flexible enough to include it and deliver social performance information.
- The current information system does not allow tracking these social performance indicators at the branch level.

In order to get more usable data to manage its social performance, SFPI plans to conduct a formal study on client satisfaction. Two quite small clients' surveys recently conducted gave a very broad idea of clients' satisfaction. They may however be helpful to design the scope and methodology of the next study (see the 'design of services' section for details).

Staff Mobilization

The Management of Human Resources ensures a sufficient adherence of staff towards SFPI's social goals:

- For all staff, some importance is given in the recruitment process to the commitment of applicants to social issues and the induction process includes modules that explain and emphasize the institution's social mission.
- Although SFPI has not put in place an incentive system to monitor staff social performance on a regular basis, the latter is likely to be enhanced through semi-annual evaluations based on criteria such as client retention, voluntary savings mobilization, and strength of group and center meetings.

SFPI employees participate in decision-making through the annual planning process, but their input is not directly related to social performance goals. However, staff is sufficiently aware of these goals, namely the increase in the proportion of women in the clientele, the mobilization of voluntary savings and the decrease in the drop out rate. A specific social performance reporting to staff could enhance their mobilization to implement the social mission.

Outreach

Client Targeting

Active poor (and more specifically women) living either in urban Addis Ababa or surrounding rural areas have been chosen as a target clientele and are actually reached.

- The initiative of conducting feasibility studies – including an analysis of the socio-economic situation of the region – to ensure that the target clientele will have a strong chance to be reached out has only been taken recently (for the new area of intervention of the Amhara Region).
- However such a broad target is easily reached out through indirect targeting mechanism such as branch locations, absence of physical collaterals for most loans, selection of active people through *Kebele's* authorities¹¹... SFPI is not planning on defining more precise criteria or on developing an individual targeting tool.
- While reaching out women has become more difficult for SFPI when expanding to rural areas with unchanged target mechanisms, initiatives have been taken to limit this decreasing trend. Advertisement has been more aimed at women and cooperation with bureaus of the Women's Affairs Office¹² has been enhanced (notably in the Fitch branch where all clients are women).
- With the Youth Microfinance Initiative (YMI) currently under testing, SFPI will also target youth.

The only target in terms of clientele composition is the proportion of women set at 60% and quarterly tracked at the institution level. It decreased from 65% in 2003 to 55% 2005 and increased back to 57% in March 2007. However, SFPI keeps in mind that some loans granted to women may be used by their husbands.

Outreach to the Poor and the Excluded

No nationally or internationally benchmarked data is available on the poverty status of SFPI's clients. The institution has the objective of reaching out to active poor people but has not yet given itself the means to really track its achievements on that front.

A combination of general statistical data about the composition of poverty in Ethiopia and general characteristics of the clientele can be used to make very rough assumptions about SFPI's clientele poverty status, but clearly cannot be used to compare SFPI's depth of

¹¹ The *Kebele* is the smallest administrative level

¹² 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.

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, 26% below 1 USD/day PPP, 81% below 2 USD/day PPP.
- As of March 2007, 57% of SFPI 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 activities¹³. 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 others¹⁴.
- 48% of SFPI's clientele live and work in rural or peri-urban areas. SFPI has not the capacity to report on the proportion of its clientele living exclusively 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, 2007¹⁵).
- The Youth Microfinance Loan¹⁶ still under testing has been developed in order to serve unemployed youth, a portion of the Ethiopian population recognized as particularly excluded from traditional financial services.

Potential social exclusion mechanisms that go beyond the pure necessity of credit risk control can be induced by group self selection mechanism (self selection of group members can lead to exclusion of some clients based on social characteristics or social prejudices). These mechanisms are not specifically controlled or monitored as SFPI expects *Kebeles* or bureaus of the WAO – occasionally included in the selection process – to favor disadvantaged clients such as female household heads.

Breadth of Outreach

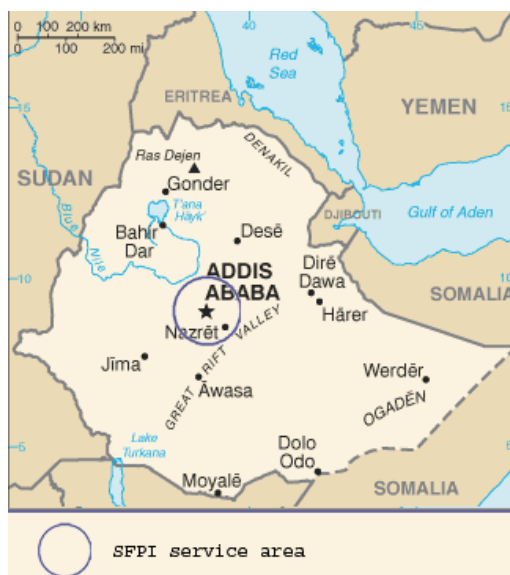
SFPI does not serve a significant portion of its target population (only 22,221 clients as of June 2007 when the total estimated demand is of several millions). Some competitors are better positioned to provide services to a significant proportion of the target clientele (ADSCI). However, it should be noted that the growth of SFPI portfolio has been notably hindered by limited funds (see GIRAFE report).

¹³ African Development Bank; appraisal report institutional support project to the women's affair office; 2003

¹⁴ PASDEP report 2006

¹⁵ <http://www.ruralpovertyportal.org/english/regions/africa/eth/index.htm>

¹⁶ Also called the Young Microfinance Initiative (YMI)



Service Offering

Service Design and Client Satisfaction

SFPI offers five types of loan products, voluntary savings and provide business trainings. The loan product range remains limited in terms of loan length and disbursed loan size¹⁷. However SFPI has made some efforts since the cap of loans was softened in the legislation¹⁸: SFPI's clients may take loans up to 15,000 ETB (1,636 USD) to be repaid on adapted terms¹⁹. The design of these products has originally been inspired from the Grameen model and has been later adapted to a limited extent through informal feedback from operations in compliance with the legislation. These feedbacks were taken into account when decreasing the minimum size of solidarity groups to three members and increasing the maximum loan size. SFPI plans to conduct a formal market study in order to further adapt its services.

SFPI also conducted a preliminary study over 39 clients based on the Microsave product ranking tool to identify the reasons behind the limited success of the voluntary savings service. As a matter of fact, voluntary savings represented only 17.2% of the total amount of collected savings as of March 2007. Operational structures proved to be insufficiently adapted to the mobilization of savings and clients not aware of the difference between voluntary and

¹⁷ The average loan length is 12 months and the average disbursed loan size are 1,560 ETB (170 USD) for petty trade, services and processing & manufacturing loans, and 1,334 ETB (145 USD) for agriculture 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.

¹⁹ The terms of non agriculture loans are ranging from 12 to 18 months. Agriculture loans are repaid at the end of the term for a maximum period of 12 months.

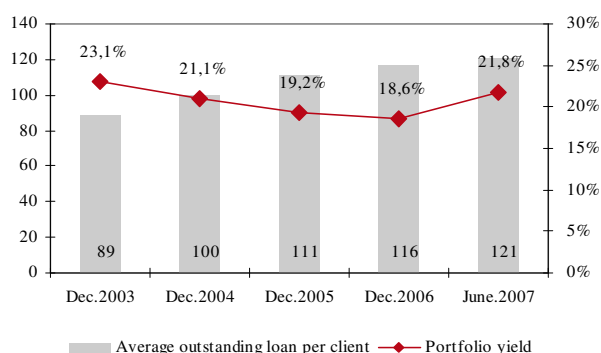
compulsory savings. As a result, LO trainings have been more focused on voluntary savings, SFPI plans to open two voluntary savings mobilization centers and to inquire into clients' savings needs.

Additionally, SFPI has made some efforts to improve client satisfaction but further actions need to be taken. Client exit is monitored and has been slightly increasing since 2003 up to 17%²⁰ in 2006. Since client exit forms have not been filled in at the branch level, a small study was recently conducted over 20 ex-clients but gives a too vague idea about the reasons for exit. SFPI intends to conduct more ex-client interviews in the future. Quantitative interviews (conducted over 139 individuals including 72 clients) as well as focus groups were useful to design SFPI's new product for unemployed youth (YMI) but were not appropriate to measure SFPI overall client satisfaction.

Cost of the Services

The average effective interest rate of non agricultural loans ranges from 27.5% to 32.7% when including the cost of mandatory savings, which is within international benchmarks. This can be considered as moderate in Addis Ababa given that competitors are granting group loans of higher amounts: the average loan balance per borrower is 116 USD for SFPI against 121 USD for AVFS, 115 USD for Eshet, 140 USD for Gasha and 168 USD for ADSCI²¹ (see table). Agricultural loans are very competitive, with an average effective interest rate ranging from 14.9% to 16.3% when including the cost of mandatory savings.

Portfolio yield evolution



However, even if transaction and financial costs supported by the clients are moderate, SFPI has not been particularly active in reducing these costs for clients:

- The declining portfolio yield results more from the increase of the cheap agriculture loan in the portfolio

²⁰ A drop out rate of 17.3% is obtained if using the gross formula: $(1 - \text{End clients} / (\text{beg. clients} + \text{new clients}))$. A higher rate is obtained with the SEEP frame tool formula that SFPI uses: $(\text{beg. clients} + \text{new clients} - \text{end clients}) / \text{average active clients}$.

²¹ Data reported for 2006 on the Mix Market website

than from a deliberate strategy to reduce the cost supported by clients. As a matter of fact, the cost of granting loans (including agricultural ones) in the untapped rural and semi-urban areas is not evaluated.

- The cost of providing services in these areas is further increased since most financial transactions are made in center meetings compounds usually relatively close from clients' home or work place. However, the net benefit for clients taking advantage of this proximity has not been assessed.
- 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

Loan conditions are reasonably transparently communicated to clients: contracts are written in Amharic, read out and explained to clients by loan officers during disbursements; pass-books specify principal, interests, and commission amounts. However, transparency of services suffers from the fact that procedures are not totally enforced in the branches as evidenced by outdated clients' pass-books regarding the registering of interest on savings. As other Ethiopian MFIs, SFPI 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.

Informal or indirect systems are in place to ensure that clients will receive an equal and respectful treatment. All clients know the branch manager who may easily be spoken to during market days. Client respect is further ensured by loan officers' evaluation partly relying on client retention. However, visits to clients by internal auditors are still limited and a more formal complaint mechanism could further reduce the risks of staff misbehaviour.

SFPI has made some efforts to limit the over-indebtedness of its clients through the sharing of clients' list at branch level with other MFIs and the obligation for branch managers to formalize their commitment to this issue on a letter addressed to the Operations Manager. This is however not systematically implemented. 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 sufficiently fair treatment of staff where main procedures are well formalized in the Human Resources manual:

- Formalized recruitment procedure (job announcement, interviews, contract and salary grid) ensure fair hiring practices.
- Internal training of staff relies only on a rough capacity gap analysis and is partially dependent on donor offering (RUFIP, AEMFI). In addition to internal trainings dedicated to productivity and efficiency, SFPI has done some efforts to develop staff skills and employability through the payment of school fees.
- Staff performance is well monitored through standardized semi-annual staff evaluation that triggers internal promotions. The career path has recently been further designed but still needs to be implemented.
- However, fair representation of women is not ensured at all hierarchical levels (50% of loan officers but 16% of field and HO management). The low participation of women in the economy is a general issue in Ethiopia.

A new and fairer staff compensation policy has been approved in reaction to high staff turnover. It will be implemented as soon as SFPI considers its profitability structure to be solid enough. In addition, SFPI provides an insurance that covers health expenses up to 1,500 ETB (164 USD) which might be increased next year.

SFPI employees have no permanent staff representatives but may voice their concerns once a year during the annual meeting and more frequently through branch managers. However this is not formalized and may not be always clearly communicated to staff.

SFPI has made some efforts to protect staff from risks related to their job such as providing helmets to all LOs exposed to potential traffic accidents. With respect to security risks linked to cash transportation, they are also limited since cashiers are systematically accompanied by a member of the management team (from the branch or from head office).

Social Responsibility to the Community

SFPI 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 SFPI) 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, SFPI participates in the development of social and economic services for the community. SFPI has been working jointly with other service providers such as CONCERN and the Managed Fund Program (respectively working with street children and their parents) but these initiatives remain very limited. Hiring local field staff and working with *Kebeles* and bureaus of the WAO, SFPI is sufficiently well integrated in the communities.

Even if committed to social values and human rights' respect, SFPI has not been actively promoting those. Although the nature of the financed activities is controlled during the application and follow-up processes, SFPI has not defined a formal list of clients' prohibited activities or practices (such as child labour) that should be avoided. However as far as SFPI is concerned as a financial institution, bank privacy is sufficiently ensured through its operations: only SFPI clients may assist to financial operations, client data is protected and only disclosed to authorized parties, and recovery mechanisms avoid public disclosure of client repayment problems.

Social Responsibility to the Environment

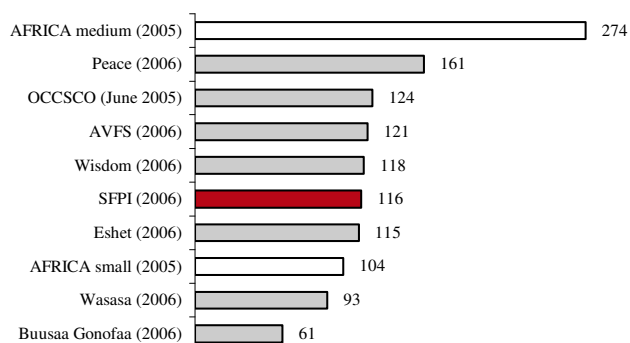
Through providing loans to farmers engaged both in on farm and of farm activities that are not hostile to the environment, SFPI promotes environmental friendly behaviours:

- SFPI does not finance activities such as charcoal making that contributes to deforestation.
- Through financing of farm activities, SFPI ensures that farmers whose plot of farming land decrease as a result of increasing population pressure do not participate in the deforestation.
- Business trainings provided to clients during center meetings include some information about being environmental friendly.

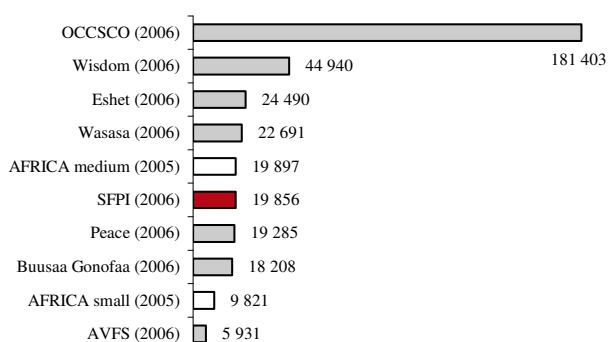
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee 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

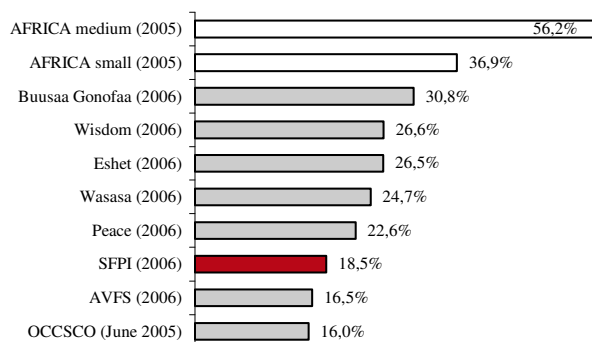
Average outstanding loan per client



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	55,0%	54,0%
% 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 31	8,3%	7,0%
Drop-out rate (gross)	na	17,0%

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