

## Wasasa MFI Share Company, Ethiopia

Wasasa MFI S.C. was established by the Oromo Self-Reliance Association (OSRA) and started providing loans in the Oromia Regional State in September 2000. The **vision** of Wasasa is to ensure that money/capital is not anymore a constraint for the poor. Its **mission** is to provide sustainable financial services to the economically-active poor in order to employ capital for poverty alleviation. Wasasa now offers five loan products and one voluntary savings product to 31,321 clients (30,749 of them being borrowers) through a network of 15 branches and one regional office.

### Social Performance Rating

#### Rating

## In Progress



Detailed scales provided on the last page.

#### Date of the Rating

**April, 2008**

#### Country Profile

Indicator	Ethiopia	SSA
<b>Demography</b>		
Urban population	16.2%	35%
Life expectancy at birth	43	47
<b>Health</b>		
Access to safe water (% pop.)	22.0	56.4
Mortality rate (<5) per 1,000 births	162.9	157
<b>Education</b>		
Adult literacy rate	45.2%	62.1%
Primary school completion	41%	60%
<b>Gender</b>		
Women in labor force	36%	54%
<b>Poverty lines</b>		
Below \$1 a day	23%	46%
Below \$2 a day	78%	77%
National	44%	N/A
<b>HDI</b>		
Rank out of 177 countries	0.371	0.493
	170 <sup>th</sup>	

Data for Ethiopia dates from 2005. Data for SSA dates from 2001 (poverty lines), 2004 (health and education), 2005 (demography), and 2008 (gender). SSA: Sub-Saharan Africa.

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#### Rating highlights

- Wasasa's well-defined social mission, updated during the 2007 strategic planning exercise, is shared by its stakeholders. Decision-making adequately incorporates the social mission thanks to successful partnerships fostering Wasasa's rural outreach (CIDR) and product development (Terrafina). Planning objectives are established and met in terms of breadth of outreach and savings mobilization but not yet in terms of service development and outreach to women, given that all the necessary projects have not been prioritized or identified.
- Basic social performance indicators are tracked quarterly. The MIS does not have the capacity to track more detailed indicators. No formal client study was conducted yet.
- The HR processes and incentive system adequately contribute to staff mobilization, but the reporting of social performance achievement to staff is not sufficiently systematic and detailed.
- Wasasa successfully targets rural areas (86%), but doesn't meet its objective for female clients (36% vs. 50%). The range of services is still limited and has been mostly adapted based on the informal feedback received from field staff.
- Financial costs supported by the client have been decreasing (despite Wasasa's limited exposition to competition) to a sufficiently low level when compared to inflation and to those of competitors. Transaction costs for the client are limited and the remuneration of savings is competitive, though below inflation.
- The level of transparency on the costs and conditions of services is reasonable. As with other Ethiopian MFIs, Wasasa only communicates the nominal interest rates (charged on a flat basis). Efforts have to be made on a sector-wide level.
- The credit life insurance is adequately covering the indebtedness risk of the client's family and solidarity group.
- In terms of social responsibility to staff, Wasasa does not offer enough training to its employees and fair representation of women is not ensured.

#### Social Performance Indicators

USD	Dec.2003	Dec.2004	Dec.2005	Dec.2006	Dec.2007
<b>Social Performance Indicators</b> (see also annexes)					
% of women borrowers	50.6%	38.9%	38.9%	36.2%	34.7%
% of rural borrowers	77.8%	77.5%	78.1%	82.0%	86.1%
% of group loan borrowers	100.0%	100.0%	100.0%	99.9%	99.8%
Retention rate (basic formula)	89.3%	92.6%	88.9%	92.8%	90.9%
PAR 31-365	2.3%	0.1%	7.6%	3.6%	1.9%
Portfolio Yield	31.5%	28.0%	23.3%	21.0%	20.9%
<b>Institutional Performance Indicators</b>					
Loan portfolio	257,960	621,485	860,401	2,024,844	3,009,200
Outstanding deposits	72,249	178,553	297,262	619,171	966,576
Active borrowers	3,728	8,949	12,151	22,691	30,749
Active savers	3,908	9,116	12,381	23,177	31,321
Staff	29	56	88	118	127

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

## Socio-economic Environment

“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 77 million people, especially the poor. The current growth rate is significantly higher than the average rate of 5% 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% rising to 10% 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% 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% in 1999/2000 to 38% in 2004/05, while poverty rates as measured by income (the head count index) fell sharply in

the rural areas from 51% in 1999/2000 to 39% 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% 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% in 2005 and was estimated at 10.5% in 2006 and 17% in 2007, 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%, and ranged up to 40% 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% of households had access to safe drinking water in 2004, compared to 19% 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% and 25% 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.”

Source: Extracts from African Economic Outlook for Ethiopia (© OCDE, 2005-06 and 2007). Planet Rating complies with OECD rights and permissions for material reproduction.

## Evolution of Socio-Economic Indicators

Ethiopia		1975	1990	2004/05
HDI	<i>a</i>		0.314	0.371
Rank out of 177 countries				170 <sup>th</sup>
<b>Demography</b>				
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
<b>Health &amp; Nutrition</b>				
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>	..	..	46.0
Access to safe water (% pop.)	<i>b</i>	8.0	27.0	22.0
<b>Education</b>				
Adult literacy rate (% of people ages 15 and above)	<i>b</i>	16.4	28.6	45.2
School enrolment ratio (%) <sup>2</sup>	<i>a</i>	..	..	36.0
<b>Gender</b>				
Women literacy rate	<i>b</i>	9.1	19.8	38.0
Women participation in labour force	<i>b</i>	..	36.8	36.0
<b>Poverty and inequality</b> <sup>3</sup>				
Below \$1 a day (% pop)	<i>a</i>	..	..	23.0
Below \$2 a day (% pop)	<i>a</i>	..	..	77.8
National poverty line (% pop)	<i>c</i>	..	48.0	44.2
GNI per capita (current US\$)	<i>b</i>	130	180	160
Gini index <sup>4</sup>	<i>b</i>	..	..	30
<b>Environment</b>				
Forest area (% of land area)	<i>c</i>	..	14.0	13.0
Arable land (% of land area)	<i>b</i>	10.6	8.9	9.7
<b>Economy</b>				
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 <sup>5</sup> )	<i>b</i>	58	54	47
Industry (% GDP <sup>5</sup> )	<i>b</i>	11	12	14
Service (% GDP <sup>5</sup> )	<i>b</i>	31	33	39

<sup>1</sup> 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.

<sup>2</sup> Combined gross enrolment ratio for primary, secondary and tertiary schools.

<sup>3</sup> 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 2008 prices, \$1.08 PPP = 3.24 ETB. \$2.15 PPP = 6.46 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.

<sup>4</sup> The Gini index was calculated in 2000 for Ethiopia.

<sup>5</sup> % 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 areas<sup>6</sup>, which is in line with the composition of the Ethiopian population. Considering that approximately 1.8 million clients are served by the 26 MFIs licensed by the NBE, the market coverage can be estimated to be between 10% and 20%<sup>7</sup>. Such an outreach has notably been ensured through the establishment of federal government-supported MFIs serving 90% of the clientele as of December 2007. 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 (535 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, MFIs 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 MFIs. Licensed MFIs 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 (the minimum interest rate increased back to 4% in 2007). Savings services are however less developed than credit services and the active depositors represent only approx. 30% of active borrowers.

<sup>6</sup> A socioeconomic profile of clients shows that 78 % of MFI clients reside in rural areas; IFAD, 2001.

<sup>7</sup> Two different estimates are available for the coverage of the Ethiopian microfinance market: 10% (short study on Microfinance, Ethiopia, February 2003, background documents country strategy 2003-2007, Jennifer Sebstad) and 20% with 7.5 million potential clients (occasional paper n° 18, Wolday Amha, AEMFI, 2007).

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 services<sup>8</sup> (women for instance represent only 53%<sup>9</sup> 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 2007, interest rates (approximated by portfolio yields) 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.

MFI Dec. 2007	Loan Port. M USD	%	Active borrowers	%	% women borrowers
DECSI	113.5	33.2%	425,172	23.9%	17.2%
ACSI	108.8	31.9%	597,723	33.5%	44.9%
OCSSCO	46.1	13.5%	263,971	14.8%	15.2%
ADCSI*	23.6	6.9%	79,421	4.5%	42.0%
OMO*	14.5	4.2%	120,277	6.8%	28.0%
Wisdom*	6.8	2.0%	48,185	2.7%	60.0%
Eshet*	3.7	1.1%	28,315	1.6%	31.7%
PEACE*	3.4	1.0%	19,471	1.1%	77.5%
<b>Wasasa</b>	<b>3.0</b>	<b>0.9%</b>	<b>30,749</b>	<b>1.7%</b>	<b>36.4%</b>
SFPI*	2.9	0.9%	25,397	1.4%	58.1%
Buusaa Gonofaa	2.3	0.7%	30,519	1.7%	75.7%
Meklit	1.8	0.5%	12,728	0.7%	36.1%
Gasha*	1.5	0.5%	9,424	0.5%	62.7%
AVFS*	1.0	0.3%	9,267	0.5%	67.6%
Harbu*	0.6	0.2%	7,125	0.4%	85.0%
Metemamen	0.7	0.2%	10,841	0.6%	72.3%
11 other MFIs	7.2	2.1%	63,106	3.5%	N/A
<b>Total**</b>	<b>341.4</b>	<b>100%</b>	<b>1,781,691</b>	<b>100%</b>	<b>52.9%</b>

Source: AEMFI, data as of December 2007. Notes: \* proportion of women as of June 2007; \*\* Average proportion of women for 25 reporting MFIs.

<sup>8</sup> Occasional paper n° 14 by Wolday Amha, AEMFI, 2005

<sup>9</sup> Average based on data reported to AMEFI by 25 MFIs in June and December 2007.

## Institutional Presentation

### Social Mission

Wasasa's vision, mission, values and objectives were defined at inception when it took over the microfinance activities of its mother NGO (the Oromo Self-Reliance Association - OSRA), and refined during the 2007 strategic planning exercise. The **vision** of Wasasa MFI is to ensure that money/capital is not a constraint for the poor. Its **mission** is to provide sustainable financial services to the active poor in order to employ capital for poverty alleviation. In addition to the **objectives** defined in its Memorandum of Association (providing lending, deposit, advisory and money transfer services), Wasasa notably aims to improve its clients' food security, productivity, and bargaining power, to inculcate banking habits among the poor and rural community, and to assist employment creation (both on-farm and off-farm in order to relieve pressure on land). Its core **values** include transparency, quality of services, staff development, passion for poverty alleviation, and commitment to gender balance. Wasasa **targets** 1) active poor involved in subsistence farming and related activities in rural areas and 2) both active poor and employees in urban areas.

### Characteristics of Outreach

No nationally or internationally benchmarked data is available on the poverty status of Wasasa's clients. The institution has the objective of reaching out to active poor 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 Wasasa's clientele can be used to make very rough assumptions about its poverty status, but clearly cannot be used to compare Wasasa's 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 that 44% of the population is below the national poverty line, 26% below 1 USD/day PPP, and 81% below 2 USD/day PPP.
- Most of Wasasa's clientele (86% of its borrowers and 85% of its savers) live 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<sup>10</sup>).
- Most of Wasasa's rural clients are reportedly small farmers. According to national statistics<sup>11</sup>, 61% of the

<sup>10</sup> <http://www.ruralpovertyportal.org/english/regions/africa/eth/index.htm> (IFAD 2007).

<sup>11</sup> 2001/02 Ethiopian Agricultural Sample Enumeration, FDRE Central Agricultural Census Commission.

10.4 million small-holder farming households in Ethiopia have less than one hectare of land, making it very difficult for these households to produce marketable surplus from their holdings given the traditional technology and input they use.

- Women represented 35% of Wasasa’s clientele as of Dec. 2007 decreasing from 62% as of Dec. 2002. In Ethiopia<sup>12</sup>, 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 their increased poverty as they are limited to informal sector and low income, unskilled and labour intensive activities. The proportion of female-headed households is rising, and in rural areas their position is made more vulnerable by social conventions (e.g. ban on ploughing) that cause them to have to sharecrop their land out to others.

### Market Penetration

Wasasa is headquartered in Addis Ababa and operates in the Oromia Regional State through a network of one regional office and 14 branches serving clients mainly located in the rural areas of 17 Woredas. Additionally, twelve Rural Credit and Saving Facilities (RCSF) are located around E. Wellega, more than 250 km West of Addis Ababa.

Branch	Penetration rate <sup>13</sup>	Active borrowers	District households <sup>(e)</sup>	% rural
Bantu	23.6%	3,228	13,651	96%
Busa	15.5%	2,731	17,650	97%
Dukem*	14.5%	2,352	16,206	88%
Kombolcha*	14.0%	4,665	33,269	97%
Taji	13.6%	1,996	14,699	94%
Assella	9.8%	3,990	40,772	53%
Huruta	9.6%	2,465	25,563	85%
Sagure	7.5%	2,406	32,144	93%
Diksis	7.3%	1,368	18,750	91%
Amigna*	6.8%	1,131	16,714	91%
Ginchi	4.1%	2,302	56,309	92%
Tullu Bollo	2.5%	410	16,619	80%
Boru Jawi	2.4%	1,319	54,726	98%
Adama	0.4%	386	95,133	45%
Shambu	0.0%	0	36,981	87%
<b>Total</b>	<b>6.3%</b>	<b>30,749</b>	<b>489,186</b>	<b>80%</b>

**Source:** Central Statistic Agency of Ethiopia, 2007; **Note:** The district population is the one of the districts where the branch operates; \* branches operating in 2 districts. (e) estimates.

<sup>12</sup> African Development Bank, appraisal report institutional support project to the women’s affair office, 2003; PASDEP report 2006.

<sup>13</sup> Penetration rate = Active clients / Number of households. The number of district households is estimated by dividing the district population by the average size of the household in Ethiopia, i.e. by 4.8 (1994 © World Bank). Wasasa provides only one loan per household.

Wasasa has to face the competition of OCSSCO in all the districts where it operates (though OCSSCO’s outreach is less rural) and the competition of other non-governmental MFIs in Dukem, Assella, Huruta, Ginchi, Tullu Bollo and Adama.



### Products and Services

Wasasa offers five loan products (for groups and individuals) as well as compulsory and voluntary savings.

- The Large Group Loan (LGL) is the main product as it represents 83.2% of the portfolio (Dec. 07). It is granted to solidarity groups of 15 to 25 rural clients. Mainly used for agricultural activities, up to 70% of the principal can be repaid at the last installment. The maximum loan size is 5,000 ETB (535 USD). The EIR is estimated at 20.1%<sup>14</sup> or 24.8% when including the cost of savings and credit insurance.
- The Enterprise Group Loan (EGL) represents 2.3% of the portfolio and is granted to groups of five semi-urban clients with a maximum loan size of 5,000 ETB. The EIR is 31.7% or 41.6% when including the cost of savings and credit insurance.
- The Employee Group Loan (EPGL) represents 8.4% of the portfolio and is offered to groups of 5 to 25 employees. A letter from the employer that indicates the salary and terms of employment is required as collateral. The maximum size is 5,000 ETB and the EIR is of 26.6% or 35.6% when including the cost of savings and credit insurance.
- The Individual Loan (IL) represents 3.7% of the portfolio and is offered to individuals and legal entities. The loan size can be above 5,000 ETB if backed by collateral but is limited by law to 1% of Wasasa’s

<sup>14</sup> The theoretical yield could not be precisely calculated given the very diverse repayment schedules offered to the clients benefiting from the Large Group Loan. For the LGL, the theoretical yield (estimated at 20.1%) varies depending on the proportion of principal repaid at the last installment (70% is the maximum).

Capital. The average loan size is 21,083 ETB (2,257 USD) and the EIR is of 22.8%.

- The Dairy (in-kind) Loan (DL), sponsored by Terrafina, is in pilot phase since January 2008 and is granted to groups of 5 to 15 clients. The clients receive dairy cows bought by the institution and reimburse their debt during twelve months. The maximum loan value is 2,000 ETB (214 USD) and the EIR is 20.1%.

Loans (except RSCF) are mostly repaid on a monthly basis although weekly and bi-weekly schedule is possible for Large Group Loans and Enterprise Group Loans. The loan term ranges from four to twelve months for LGL, EGL and EPGL and goes up to two years for ILs. There is no fee but group clients are required to pay a credit insurance (1% of the loan amount) used to repay the loan in case of a client's death. The Effective Interest Rate (EIR) is estimated at 21% or 25.9% when including the cost of savings and credit insurance.

For LGL, EGL, and EPGL, clients are required to save 10% of the loan amount before disbursement as compulsory savings. Remunerated 4% yearly and used in case of default, the deposit can be withdrawn once the loan is reimbursed. In addition to compulsory savings, Wasasa offers voluntary savings remunerated at a 6% yearly rate. Deposits and withdrawal are allowed during the monthly reimbursement sessions. Interests are computed based on the minimum balance of the month.

The Rural Savings and Credit Facilities (RSCFs) pilot project developed in partnership with the CIDR allow remote rural communities to build their own savings and credit centers. The facility is built once 150 members are registered and savings are collected as soon as the RSCF management committee is trained. Three different kinds of savings are available: time deposit, flexible time deposit and savings account. The RSCFs borrow from Wasasa at a 15% annual interest rate (and make a mandatory deposit equal to 10% of the loan) and repay at the end of the term while members of the RSCF receive loans at a 24% annual interest rate. The maximum loan size granted to RSCF varies according to the level of mobilized savings.

## Social Performance Rating

### ▪ Institutionalization of the Mission

#### Social Mission and Strategy

Wasasa's social mission has been clearly defined and is well-shared by most of its stakeholders. Its focus on rural areas was inherited from its mother NGO OSRA that

handed over its microfinance activities to Wasasa in 2000 and has been providing non-financial services aimed at improving the working conditions of farmers of the Oromia Regional State<sup>15</sup>. Wasasa's direct stakeholders (BOD members, all staff and a sample of 90 clients) have participated in the updating of the social mission during Wasasa's strategic planning exercise conducted in September 2007. During this process, Wasasa defined its institutional values and culture as well as related objectives and goals in line with its vision and mission (cf. Institutional Presentation).

Successful in building partnerships consistent with its social objectives, Wasasa was able to integrate its social mission into its most important strategic decisions. The institution has been able to attract funds from various donors sharing its social mission, including World Solidarity Movement, ICCO, the European Development Fund, the Ethio-Italian Development Cooperation and the CIDR. The pilot Dairy Loan developed in partnership with Terrafina (cf. Institutional Presentation) was designed to increase the productivity of farmers and enhance their negotiation power. These two important challenges are included in the institution's core objectives. Similarly, the decision to build RSCF in partnership with the CIDR (cf. IP) is fully in line with Wasasa's social mission as it strengthens its outreach to rural areas.

Wasasa's social mission, at the center of the 2007 strategic planning process, was detailed into clear strategic objectives and goals for the next years. However, the projects necessary to carry out these plans have not been always clearly identified or timely implemented.

- Besides maintaining its outreach to rural areas, Wasasa intends to increase the share of women into its clientele to 50% by 2011 as the BOD is not satisfied by the current level (35% in Dec. 2007). However, the business plan does not assess to what extent the training provided on gender issues based on the recommendations of the 2006 gender study (conducted by an external consultant) were efficient and what new projects should be launched to meet the 2010 objective.
- The 2008 Marketing Action Plan assigns clear deadlines and responsibilities to conduct market surveys, measure the clients' satisfaction and monitor the reasons for clients' exit. However, Wasasa is late in the realization of most of these projects: the money transfer study was not conducted and the monitoring of clients' exit has not started although both were planned for the beginning of 2008. Moreover, some budget items are underestimated, particularly the preparation and supervision costs for the client satisfaction survey.

<sup>15</sup> OSRA is involved in the setting-up of cereal banks and the construction of wells.

- Other social performance objectives, also related to institutional performance, are on a good track, notably the increase in the outreach (52,935 clients by 2011 vs. 30,749 in 2007) and the mobilization of clients' savings (loan to deposit ratio of 40% by 2011 vs. 32% in 2007).

## Social Performance Monitoring

The current manual MIS does not allow for detailed social performance monitoring. Some basic social performance indicators have nevertheless been defined in line with stated goals.

- Most of these indicators (outreach in terms of active clients, proportion of rural and female clients, average loan size<sup>16</sup>, deposit to loan ratio, number of active RSCF) are tracked quarterly, included in the planning process and reported to the various stakeholders (e.g. BOD, Incofin, RUFIP, CIDR, etc.).
- Additional client level data (e.g. marital status, type of houses, owned land and animals) is filled on the application forms, updated at each cycle and checked during the loans' approval process. However, the manual MIS does not allow for the easy consolidation of data necessary to track the changes in the clients' status as originally intended.
- Client drop out is tracked quarterly and client retention has been maintained to an estimated good level (90.2%).

In order to track client satisfaction through formal indicators and thereby better monitor its social performance, Wasasa plans to monitor reasons for clients' exit and to conduct a formal study on client satisfaction by the end of 2008 (cf. the 'design of services and client satisfaction' section for details).

## Staff Mobilization

Wasasa has put in place efficient processes directed to motivating personnel towards its social performance objectives.

- The participation of all staff in the definition of Wasasa's social mission, values and culture during the 2007 strategic meeting has contributed to the staff buy-in of the institution's social objectives.
- Trainings related to gender issues, HIV/AIDS and customer care have contributed to increase branch staff's understanding of and capacity to fulfill social goals. Moreover, the social mission is communicated to staff through the various manuals.
- The attractive bonus system in place since January 2007 takes into account both social performance criteria

(outreach to women) and institutional performance criteria relevant to the social mission (drop out and deposit/outstanding loan ratios).

- However, staff turnover remains high, at 15.5% in 2007 and 19.4% in 2006.

Social Performance achievements ought to be better disseminated to staff. The posting in the branch premises of cross-branch comparisons in terms of outreach and savings mobilization is not systematic or updated. A more formal social performance reporting to staff (e.g. on client satisfaction) could optimize its commitment to social goals.

## Targeting and Service Offering

### Breadth of Outreach

Wasasa does not currently serve a significant portion of its target clientele. Wasasa's active clients (30,749 in Dec. 07) represent 0.13% of the Oromia Regional State population<sup>17</sup>. In the districts where it operates, Wasasa's penetration rate is estimated at 6.3% (cf. Institutional Presentation). When compared with its competitors, Wasasa has been one of the quickest growing private Ethiopian MFIs as it was established in 2000 and was as of Dec. 2007 at the third position in terms of active borrowers among this group. Its outreach remains nevertheless far less significant than that of governmental MFIs such as OCSSCO with 263,971 clients. Wasasa is expected to reach a larger number of clients in the coming years (52,935 are planned for 2011).

### Client Targeting

Wasasa defined its target clientele (mostly active poor living in rural areas of the Oromia Regional State) along with its social mission, based on a good knowledge of the socio-economic situation and of the characteristics of rural poverty of the region. Wasasa's outreach to rural clients increased to 86% in Dec. 07 from 68% in Dec. 02.

Wasasa's client targeting mainly consists of opening branches in semi-urban centers where the MFI has identified: 1) sufficient demand in a 10 km to 25 km radius (people considered as excluded from formal financial services), 2) potential for the clients' activities (frequent markets) and 3) infrastructure (roads, schools). Adequate feasibility studies gathering the needed information to decide on branch openings have been conducted but could be better formalized. Some precise social indicators (such as the literacy and unemployment rates of the districts) might be considered but are not used as decisive criteria for the branch selection.

<sup>16</sup> Tracking the average size of the loans to assess Wasasa's depth of outreach is not adequate as clients may take loans from other informal or formal sources. The availability of other formal financial services is however limited in the rural areas where Wasasa operates.

<sup>17</sup> The Oromia Regional State population is estimated at 26 553 000 by the Ethiopian Central Statistics Agency. 86.7% of the population is rural.

Wasasa's targeting of rural areas has been enhanced through successful partnerships with the Ethio-Italian Cooperation ABRDP<sup>18</sup> (opening of six branches in the Arsi-Bale region) and the CIDR (setting up of 12 RSCF near E. Wellega). The ABRDP feasibility studies are based on a deeper analysis however relying on the same general criteria as for the other branches. RSCF are set up in remote areas, more than 25km away from semi-urban centers.

Wasasa has not developed a targeting tool to select its clients individually according to socio-economic criteria.

- The characteristics of the Ethiopian population and of Wasasa's service offering (branches located close to rural areas, limited loan size, and use of the group lending methodology) contribute to increasing the probability that Wasasa is reaching active poor people.
- Wasasa outreach to women (35% of its clientele) remains below its objectives of 50%. In order to improve, Wasasa has enhanced its communication towards women, rather than using discriminatory targeting mechanisms. Other MFIs operating in rural areas have been able to reach much better levels (e.g. Buusaa Gonofaa with 76% of women).

### Service Design and Client Satisfaction

Wasasa is offering a still limited range of loan products although it has been expanding<sup>19</sup>. Wasasa's Large Group Loan (LGL) has been adapted throughout the years through informal feedback received from the field staff. Its repayment schedule reasonably fits agricultural activities as the client may repay up to 70% of the principal on the last installment, depending on the LO's appraisal. However, the LGL is not very flexible yet as higher amounts and terms (over 5,000 ETB – 535 USD – and 12 months) are only available to the clients who possess the collaterals required to access the Individual Loan (which represented only 0.2% of Wasasa's clientele in December 2007). Urban clients benefiting from the Enterprise Group Loan (EGL) may have access more quickly to higher amounts (2,000 ETB i.e. 214 USD from the first cycle vs. maximum of 1,000 ETB i.e. 107 USD for the LGL). However, its design needs to be refined as suggested by its high PAR (8.7% as of Dec. 2007) and limited success (1.4% of the clientele).

The current range of products is being diversified with the Dairy Loan product (DL) that has been carefully developed through different steps, ranging from the preliminary survey<sup>20</sup>, the design of the loan draft characteristics and – since February 2008 – the pilot phase. In line with its social objectives, Wasasa has designed the DL to improve the

client's productivity (thanks to the acquisition of productive dairy cows) and enhance their negotiation power (since Wasasa bargains and buys the cows for its clients).

Wasasa's operational structures are well-adapted to the disbursement of credit to rural clients as most of the repayments are done in the collection centers located close to the clients' house or work place. It is less adapted to the provision of savings services as clients may have access to their savings only once a month at the branch (located in semi-urban areas). The setting-up of Rural Savings and Credit Facilities in partnership with the CIDR allows Wasasa to offer much more flexible savings services through time and flexible time deposit.

Wasasa has not conducted formal clients' satisfaction survey yet but plans to do so in 2008 as stated in the marketing department action plan. It also plans to conduct a clients' study to identify how its current loan offering could be better adapted to the clients' seasonal activities. The systematic identification of the reasons for client exit is another important tool that will be soon implemented by Wasasa to refine the design of its products (reporting formats are ready). Wasasa's retention rate, though calculated with a very basic formula<sup>21</sup>, has been stabilizing over time to good level (89.3% in 2003 to 90.9% in 2007).

### Cost of the Services

The effective interest rate ranges from 21% to 25.9% when including the cost of mandatory savings and credit insurance. This is within international benchmarks and quite competitive for an institution that lends small amounts (portfolio yield of 20.9% and average outstanding loan of 98 USD as of Dec. 07) in rural areas, especially when compared to that of competitors providing loans of higher amounts in less remote areas (e.g. average outstanding loan of 141 USD and portfolio yield of 26.6% for Wisdom) or loans of smaller amounts in more scattered areas (e.g. average outstanding loan of 75 USD and portfolio yield of 28.4% for Buusaa Gonofaa).

Wasasa has successfully decreased the cost supported by its clients as evidenced by the decreasing portfolio yield (cf. graph), which is in line with the Ethiopian microfinance industry downward trend on interest rates. This also results from Wasasa's policy to constantly improve its pricing even when the majority of rural areas where the institution operates are not yet exposed to a fierce competition. The current financial cost of the loan can be considered as quite cheap if compared to the Ethiopian inflation rate, and further efforts to reduce it would reflect on the institution financial self sufficiency. The transaction costs supported

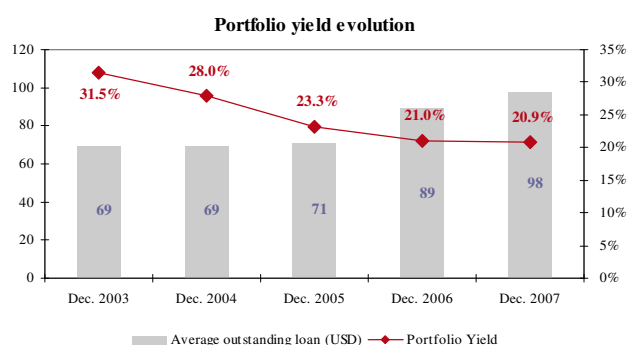
<sup>18</sup> Arsi-Bale Rural Development Project.

<sup>19</sup> Details available in the Institutional Presentation.

<sup>20</sup> The preliminary survey was conducted on a limited number of clients from the village where the DL is launched.

<sup>21</sup> Cf. annexes.

by the client are also reasonably low given that only the disbursement and final reimbursement meetings require the client to travel to the branches whereas other meetings are held in premises (e.g. schools) close to the client's home.



Wasasa also offers a voluntary savings service remunerated at a competitive interest rate (6% annually) higher than the one offered by most of the Ethiopian MFIs, generally abiding by the NBE minimum requirement of 4%. Such a rate remains nevertheless significantly below the Ethiopian inflation<sup>22</sup>.

## ■ Social Responsibility

### Client Protection

Loan conditions are reasonably transparently communicated to clients: contracts are written in Oromifa, read out loud and explained to clients by Loan Agents during the disbursement. The pass-books adequately specify the principal and interests to be paid at each instalment; however, the 6% interest rate to be received on the savings services is not stated on the contract. Similarly to other Ethiopian MFIs, Wasasa 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.

Some systems are in place to ensure that clients will receive an equal and respectful treatment but could be further developed. Client respect is sufficiently ensured as 1) all clients meet the branch manager who is easily accessible in the branch 2) the personnel manual states that the customer should be handled respectfully, 3) each group of clients has designed its own by-laws, to be respected by their members and the LA, and 4) the LA evaluation is notably based on client retention and respect. A more formal complaint mechanism and/or staff code of ethics could further reduce the risks of staff misbehaviour. More frequent visits from the Internal Controller (in charge with some Internal Audit checks) could bring an additional layer of security.

<sup>22</sup> For 2007, inflation reached 17.5% according to the National Bank of Ethiopia and is estimated at 14% according to the COFACE.

Wasasa has made some efforts to limit the over-indebtedness of its clients through the sharing of clients' list at branch level with other non-governmental MFIs<sup>23</sup>. 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.

Other kind of risks faced by clients benefiting from credit services are mitigated by systems in place.

- The credit life insurance, paid by the client for 1% of the loan amount, covers the solidarity group in case of the death of one of its members. This also allows the institution to decrease the probability that sick people are excluded from its services.
- The fact that the disbursement and the last reimbursement (often the largest) are done in presence of the whole group mitigates the risk of carrying cash for the clients (as they are travelling together).

### Human Resources Policy

Despite Wasasa's overall good administrative management of Human Resources, the fair treatment of staff is not optimally ensured yet.

- Staff training has been insufficient so far: in 2007, 9% of the staff received a formal training compared to 58% in 2006. Wasasa has nevertheless taken good steps to develop its internal training capacity with the on-going construction of a training center and the planned recruitment of an HR assistant to the HR Manager. Wasasa grants additional leaves when staff needs to pass exams, thus helping staff to improve its employability. It also contemplates contributing to staff self-education expenses.
- Reasonably fair hiring practices are ensured by their formalization into a clear recruitment procedure (job announcement, rounds of interviews, and contract). Similarly, HR procedures ensure that each staff is evaluated on a yearly basis, resulting on salary increments based on a transparent salary grid.
- In order to catch up with the inflation and to remain a competitive employer, Wasasa regularly reviews the level of its salaries based on a comparative analysis with the salaries offered by competitors and the public administration. The annual average increase remains nevertheless inferior to the yearly inflation rate.

Fair representation of women is not ensured as they represent only 19% of staff, most of them being administrative staff. There is no woman in the management

<sup>23</sup> Cf. Institutional Presentation – Characteristics of the outreach.

team. Following the recommendation of the 2006 gender study, Wasasa stopped advertising Loan Agent (LA) and Loan Officer (LO) positions stating a preference for men (which was done due to the tiring travels involved on these positions). In 2007, women LA, representing 5% of this category of staff, were working in urban areas only. The low participation of women in the economy is a general issue in Ethiopia.

Although Wasasa’s employees have no permanent staff representatives, the personnel manual states a clear procedure outlining the steps to follow in case of disagreement/problem between two employees or between employees and management. Staff may also voice their concerns during the annual meeting.

Risks related to field staff work conditions could be better mitigated. Wearing helmets for field staff travelling to rural areas and exposed to potential traffic accident is not systematic. Moreover, although important amounts of cash are to be systematically carried by two members of the staff, this has not been formalized in a clear policy.

### Social Responsibility towards the Community

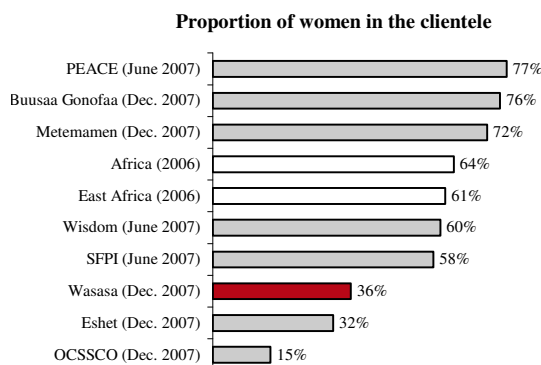
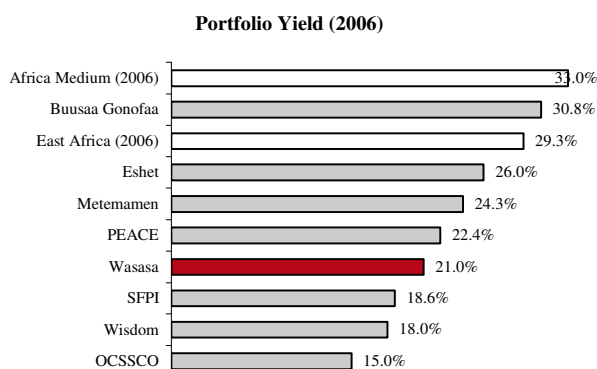
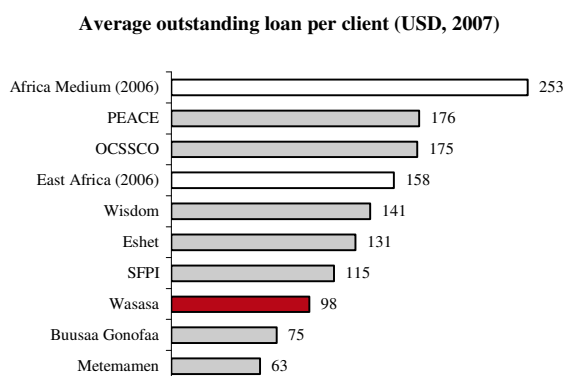
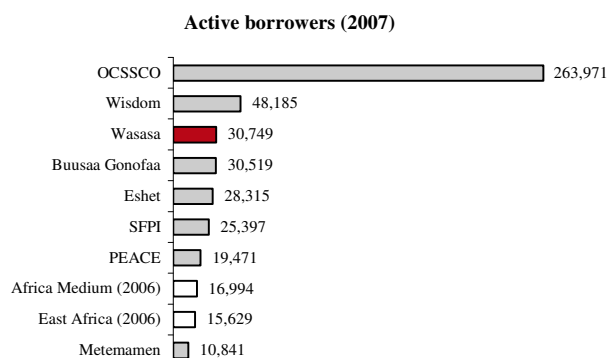
In addition to and through its services, Wasasa participates in the development of social and economic services for the community. All branch staff received a specific training from the Addis Ababa City HIV/AIDS Prevention and Control Office to ensure that the HIV/AIDS marginalized population is not excluded from Wasasa’s services. Hiring local field staff and working with *Kebeles*, Wasasa is sufficiently well integrated in the communities. The personnel manual requires staff to show an acceptable behaviour when interacting with the community.

Despite being committed to social values and human rights’ respect, Wasasa has not been actively promoting those. Although the nature of the financed activities is controlled during the application and follow-up processes, Wasasa has not defined a formal list of clients’ prohibited activities or practices (such as child labour) that should be avoided. Besides, bank privacy is sufficiently ensured through Wasasa’s operations: only Wasasa’s clients may assist to financial operations, client data is only disclosed to authorized parties (it could be better protected under lock and key), and recovery mechanisms avoid public disclosure of client repayment problems.

### Social Responsibility towards the Environment

Wasasa is aware of the environmental risks related to the agricultural activities it finances but has not put in place clear strategies to mitigate them.

## Benchmarking



Source: Planet Rating (Wasasa), other MFIs (AEMFI and the Mix Market), African Benchmarks (MBB 2006 Benchmarks, medians).

## ■ Performance Indicators

Composition of the clientele	Dec.2005	Dec.2006	Dec.2007
% of women borrowers	38.9%	36.2%	34.7%
% of rural borrowers	78.1%	82.0%	86.1%
% of socially marginalized or excluded groups	N/A	N/A	N/A
<b>Entering clients or Active borrowers</b>			
% Below the national poverty line	N/A	N/A	N/A
% Below 50% below the national poverty line	N/A	N/A	N/A
% Earning less than 1 USD a day per household member	N/A	N/A	N/A
% Earning less than 2 USD a day per household member	N/A	N/A	N/A
% Poor or low income	N/A	N/A	N/A
<b>School enrollment</b>			
% School enrollment of clients children	N/A	N/A	N/A
<b>Appropriateness of services</b>			
PAR 30	7.6%	3.6%	1.9%
Retention rate (simple <sup>24</sup> )	88.9%	92.8%	90.9%
<b>Achievement of change (3-year or 5-year clients)</b>			
% of clients who witnessed a positive change in their social status	N/A	N/A	N/A
% moved above the poverty line	N/A	N/A	N/A
% still below the poverty line	N/A	N/A	N/A
# of hired / salaried employees in micro-enterprises	N/A	N/A	N/A
<b>Human Resources policy</b>			
% of women among prof. staff	20.3%	18.9%	19.0%
% of women among management	0.0%	0.0%	0.0%
% of employees who received at least two days of training	57.6%	8.7%	9.5%
Staff turnover	23.6%	19.4%	15.5%
<b>Institutional Performance indicators</b>			
Gross loan portfolio	860,401	2,024,844	3,009,200
Outstanding deposits	297,262	619,171	966,576
Active borrowers	12,151	22,691	30,749
Active savers	12,381	23,177	31,321
Staff	88	118	127
Portfolio Yield	23.3%	21.0%	20.9%
Operating expense ratio	14.6%	13.4%	9.8%
Funding expense ratio	3.8%	3.8%	3.7%
Loan Loss Provision Expense Ratio	5.6%	2.2%	1.3%

**Note:** These indicators are currently being tested by the social performance taskforce (SPTF) and MixMarket for social performance reporting. The answers to the qualitative indicators being tested by the MiX are stated in the rating.

<sup>24</sup> Data to calculate other retention rates (cf. formulas) is not available.

## ■ 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.
- Retention rate (basic formula): end borrowers / (beg. borrowers + new borrowers).
- Retention rate (enhanced formula): (end borrowers - borrowers with the same loan during the period) / (beg. borrowers + new borrowers - borrowers with the same loan during the period).
- Retention rate (CGAP formula): repeat loans / repaid loans.
- Penetration rate: active clients / number of households

## ■ Rating scale

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