FEED THE FUTURE

The U.S. Government's Global Hunger & Food Security Initiative

FINANCIAL SERVICE PROVIDERS CAPACITY ASSESSMENT

January 2019

CATHOLIC RELIEF SERVICES/ETHIOPIA

USAID FROM THE AMERICAN PEOPLE

CRS CATHOLIC RELIEF SERVICES

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List of Acronyms and Abbreviations

CRS	Catholic Relief Services
DFS	Digital Financial Services
DFSA	Development Food Security Activity
FSP	Financial Service Providers
FGD	Focus Group Discussion
GRAD	Graduation with Resilience to Achieve Sustainable Development
HABP	Household Asset Building Program
HCS	Hararghe Catholic Secretariat
LG	Livelihood Group
LGF	Loan Guarantee Fund
LRO	Livelihoods Resilience of Oromia
MCS	Meki Catholic Secretariat
MFI	Micro Finance Institution
MIS	Management Information System
MSE	Micro and Small Enterprise
OCAT	Organizational Capacity Assessment Tool
OCSSCO	Oromia Credit and Saving Share Company
OSHO	Oromia Self Help Organization
PSNP	Productive Safety Net Program
RuSACCO	Rural Saving and Credit Cooperatives
SILC	Savings and Internal Lending Communities
SHG	Self Help Groups
SPM	Social Performance Management
VSLA	Village Savings and Loan Associations
WVA	World Vision Ethiopia
WASH	Water Sanitation and Health

Local Names

Kebele	A geographic area (village) under *woredas*
Region	The higher Administrative Structure embracing zones and *woredas*
Woredas	The lowest Government Administration Unit

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EXECUTIVE SUMMARY

Catholic Relief Services (CRS), in partnership with Hararghe Catholic Secretariat (HCS) and Meki Catholic Secretariat (MCS), is currently implementing USAID's Feed the Future (FtF) funded Ethiopia Livelihoods for Resilience of Oromia (LRO) and USAID's Office of Food for Peace (FFP) funded Development Food Security Activity (DFSA). These Activities focus on food, nutrition and livelihoods security of Productive Safety Net Program (PSNP IV) households (HHs). They operate in fourteen woredas and overlap in four woredas in MCS. LRO overlaps in one woreda with World Vision Ethiopia (WVE). Financial services are key to reaching the development goal improving the livelihoods of PSNP HHs. The two Activities are working to increase beneficiaries' access to and usage of financial services that will enhance the economic well-being of PSNP IV HHs. The Financial Services Capacity Assessment exercise was commissioned by CRS Ethiopia to enable the Activities work with reliable information in structuring financial linkages between FSPs and PSNP HHs by addressing identified capacity gaps. And hence enhance Activity outcomes at the households while creating sustainable relationships between FSPs and PSNP HHs.

Two types of FSPs were assessed: Microfinance Institutions (MFIs) and RuSACCOs/ RuSACCO Unions. Five RuSACCO Unions which are operating in the Activities operation areas of MCS and HCS were considered in the assessment. Duro Shala in West Arsi Zone, Biftu Batu and Awash Unions from East Shewa Zone, Kalata union from Arsi Zone, and Burka Gudina of Babile woreda. Overall, 67 RuSACCOs (35 in MCS and 32 in HCS areas) were included in the assessment. The assessment identified all MFIs in target woredas whose capacity was assessed. The following results and recommendations were concluded from this exercise.

1. While most MFIs had strong indications of operational and financial capacity, they had (except for one) poor management information systems (MIS) and no (except for two) Digital Financial Services (DFS) to make up for their low presence in geographically remote areas where PSNP HHs are mostly located;
2. RuSACCOs and RuSACCO Unions, while comparatively closer to PSNP HHs than MFIs, had weak savings mobilization capacity coupled with poor loan performance that affected their capacity to serve increasing demand from PSNP HHs and other community members due to lack of loanable fund;
3. A good number of RuSACCOs and MFIs had experience in working with NGO projects and savings groups. This was a key factor in determining FSPs to work with under these Activities. Selected FSPs included: Metemamen MFI; Keleta RuSACCO Union; Vision Fund MFI; OCSSCO MFI; Meklit MFI; Awash RuSACCO union; and Doro Shalla RuSACCO Union in MCS Activity areas. Under HCS Activity areas, the following FSPs were identified: OCSSCO MFI; Dire MFI; Burka Gudina.

Finally, the assessment concluded that while FSPs faced a number of challenges while having strengths in different areas, the challenges affected each FSP differently depending on the area of operation and the intervention focus that the project was interested to work in. Recommendations are therefore made in the report to provided focused capacity building activities on a needs basis while increasing the risk appetite of FSPs to serve PSNP HHs through the loan guarantee fund.

INTRODUCTION

CRS Background on Financial Inclusion

Catholic Relief Services (CRS) currently has activities focusing on relief assistance, household and community resilience building, agriculture and natural resources management, health and nutrition, Water, Sanitation and Hygiene (WASH), and Microfinance. Two activities of CRS Ethiopia that contribute to these program areas are Livelihoods Resilience of Oromia (LRO) and Development Food Security Activity (DFSA). These Activities are being implemented in partnership with Hararge Catholic Secretariat (HCS) and Meki Catholic Secretariat (MCS). The Feed the Future (FtF)-funded Ethiopia (LRO) and USAID's Office of Food for Peace (FFP)-funded DFSA focus on community resilience building of Productive Safety Net Program IV (PSNP IV) beneficiary households (HHs).

Livelihoods Resilience of Oromia (LRO)

LRO aims to enable PSNP IV HHs to improve and ensure they sustain their economic wellbeing. CRS implements LRO in collaboration with its partner MCS in Oromia Regional State. This Activity has nine target woredas (districts): Arsi Negelle, Shalla, Siraro, Adami Tulu Jido Kombolcha (ATJK), Ziway Dugda, Dodota, Sire, Heben Arsi and Boset. The Activity runs from February 1, 2017 through January 31, 2022 and aims to reach 24,500 PSNP HHs. The key objectives of the Activity are:

- Increasing income and diversification through Crop and Livestock opportunities;
- Increasing income and diversification of Off-farm Livelihood options;
- Increasing income from gainful employment; and
- Increasing innovation, scaling and sustainability of livelihood pathways.

Development Food Security Activity (DFSA)

CRS' DFSA is an initiative to sustain and build upon the previous food security improvements achieved under the Government of Ethiopia's (GoE) framework of the PSNP. The goal of the Activity is to improve and sustain food, nutrition and livelihoods security of households and communities. The lifespan of Activity is from September 30, 2016 through September 29, 2021. It has three purposes and one cross-cutting sub-purpose on gender and youth:

- **Purpose 1:** GoE and community systems respond to reduce communities' and households' vulnerability to shocks;
- **Purpose 2:** Households improve their sustainable livelihood and economic wellbeing;
- **Purpose 3:** Pregnant and lactating women and children under five have improved nutritional status; and
- **Cross Cutting:** Women and youth have increased access to and control of community and HH resources.

DFSA is implemented by CRS in collaboration with Mercy Corps, MCS and HCS. It is implemented in Oromia Regional State and Dire Dawa Administrative Council. CRS' DFSA operates in four livelihoods zones and plans to serve 48,125 PSNP HHs under Purpose 2.

DFSA and LRO overlap in four woredas - Arsi Negelle, Shalla, Heben Arsi and Ziway Dugda. In addition to geographical overlap, the two Activities have technical overlaps in thematic areas such as livelihoods, gender, nutrition and market systems. The two Activities are closely working together to manage these overlaps within MCS operational areas. LRO overlaps in one woreda with World Vision Ethiopia (WVE).

The two Activities base their interventions on establishment of livelihood groups (LGs) and these groups implement the Savings and Internal Lending Communities (SILC) methodology for savings mobilization. The two Activities are establishing LGs and implementing SILC methodology). The groups have started mobilizing savings from members and have started to lend to members.

The Activities have also conducted a barrier analysis on access to financial services. The purpose of the assessment was to identify key determinants of two selected behaviors: borrowing money and timely repayment of loans from FSPs. The two behaviors were studied through observation of PSNP IV beneficiaries' behavior in five woredas in MCS. The findings of the assessment are in a separate report.

In the Activities' operational areas, MFIs and RuSACCO/RuSACCO unions are the most available Financial Service providers (FSPs) serving poor households. MFIs that have significant operations in the project area are Oromia Credit and Saving Share Company (OCSSCO), Metemamen MFI, Gasha MFI, Meklit MFI, Vision Fund MFI and Busa Gonofa MFI.

Woreda	Name of Partner and MFI	
	HCS	**MCS**
Deder	OCSSCO	
D/D	Dire MFI	
Midega Tola	OCSSCO	
Babile	OCSSCO	
M/belo		
Ziway Dugda		• OCSSCO • Metemamen
Adami Tulu J/K		• OCSSCO • Metemamen
Arsi negele		• OCSSCO • Metemamen
Heben Arsi		• OCSSCO
Shala		• Metemamen • OCSSCO
Siraro		• OCSSCO
Boset		• OCSSCO • VisionFund MFI • Gasha MFI
Sire		• OCSSCO • Metemamen • Meklit
Dodota		• OCSSCO • Meklit

General Objective

The Financial Services Providers (FSP) capacity assessment was conducted for both Activities to identify potential financial services partners to be considered for structuring viable financial linkages for the target project areas of Oromia and Dire Dawa Administration Council of Ethiopia. This was done in order to increase access to financial services (i.e. savings, loan and micro-insurance) for Livelihoods Group members.

Specific Objectives

i. To conduct a capacity assessment of potential FSPs with regards to providing sustainable financial services to Activity participants.

ii. To examine product features in terms of appropriateness (quality, terms and conditions) and whether these meet PSNP client needs.

iii. To identify growth potential in terms of outreach (both financial and geographic) of the FSPs and willingness to address PSNP clients, with emphasis on women and youth, based on agreed terms and conditions with CRS/MCS/HCS.

iv. To identify community and stakeholders' perception on the MFIs/RuSACCOs.

   a. Examine organizational structures and functions of FSPs with regards to their: governance structures and their strategic focus with priority given to:
   b. physical and human capacity gaps that may affect effectiveness and efficiency of the FSPs branch in servicing the target beneficiaries, and
   c. capacity gaps in accessing and managing government conditional capacity building grants.

v. To explore FSPs' experience on loan guarantee fund utilization and identify any best (or emerging) practices in the management of loan guarantee funds.

Scope and Limitation of the Assessment

Scope: The assessment covered 14 Woredas of Oromia Region and Dire Dawa Administration where implementing partners (HCS and MCS) of the two Activities are operating.

Limitations: Data was collected from RuSACCOs operating in PSNP kebeles and only PSNP beneficiaries (LG members) were targeted hence possible bias in perception of FSPs in the target areas.

There were instances where RUSACCO Unions, RuSACCOs, and MFIs were reluctant to provide data, mainly on financial performance and profitability of their institutions. This affected completeness of analytical information on FSP performance that would enable comparison on institutions. Hence, further examination might be required to get this data as a condition for contracting potential FSP project partners.

METHODOLOGY

Desk Review

Prior to the field assessment CRS DFSA and LRO project documents were reviewed to provide the necessary background information and data for the assignment and preparation of data collection tools – questionnaires and FGD guides. Other relevant literature was also reviewed focusing on the general financial services landscape in Ethiopia such as Federal Cooperative Agency Capacity Gap Assessment and Mapping of Financial Institutions under Food Security Program: Household Asset Building Program (HABP) Areas conducted in 2012 and CRS Ethiopia Graduation with Resilience to Achieve Sustainable Development (GRAD-I) project reports. CRS Tanzania's U.S. Department of Agriculture (USDA) *Soya Ni Pesa* project's Financial Linkages Report was also reviewed to provide additional background information on CRS approaches and guidelines to financial linkages.

The Desk Review led to mapping of FSPs, being undertaken by CRS Ethiopia and partners. The mapping exercise led to a document that provided useful information on how FSPs are operating in the areas of interest for the Activities, and their financial status leading to decisions on who to include in the assessment.

Organizational Capacity Assessment Tool (OCAT) Administration

A comprehensive OCAT was adapted and administered to collect information on management and organizational structure, outreach, operations, human resources, growth, experience, reporting and documentations of MFIs (headquarters and their branches), SACCO unions and RuSACCOs. *(See Annexes 1 for the OCAT Tool).*

Focus Group Discussions

Interviewees under focus group discussions (FGDs) were mostly members of LG groups that had been exposed to FSPs products or had not had any experience. Their perceptions on different category of FSPs was also assessed and the type of products and/or services they felt were of high demand to them.

Key Informant Interviews

Key informants Interviews (KIIs) constituted a major source of strategic information for the assessment given their perceived critical roles in project implementation, strategic oversight and management of the financial linkages between project groups and linkage structures (MFI branches and RuSACCOs/RuSACCO Unions). KIIs were done with woreda-level stakeholders and CRS Partners, focusing on senior management teams of these institutions to understand the objectives underlying strategic decisions for initiating financial linkages with the project beneficiaries. KIIs were not done at individual level rather all relevant woreda sector office representatives participated as a group. The participant sector offices were Cooperative Promotion Office, Agriculture Office, Food Security Office and Women and Children Affairs office.

DATA COLLECTION

Sampling

Purposive sampling was used to get participants for RuSACCOs and Focus Group Discussions. However, for MFIs and RuSACCO unions, all MFIs with their branches and all Unions at DFSA and LRO operational woredas were included in the assessment hence a census approach. Out of the total number of RuSACCOs that exist in DFSA and LRO operational woredas, 20-30% RuSACCOs per woreda were taken as sample based on availability of MFI operation in the woreda. That is, if more than one MFIs were available in the woreda and addressing PSNP kebeles, 20% of the RuSACCOS were taken as sample and If one MFI or MFI were not available in the woreda 30% of RuSACCCOs were taken as a sample. With regards to FGD, the sampling was for kebele selection and 10% of kebeles from the total PSNP kebeles in the woreda were selected as samples while one FGD was conducted from each of the sample kebeles.

As per this sampling method the samples selected and participated in the assessment from 14 woredas were 6 MFI head offices and 22 Branches of these 6 MFIs, 31 Kebeles (31 FGDs) from 320 kebeles, 5 RuSACCo unions, 66 RuSACCOs and 14 Key Informant Interviews.

Figure 1 Sample size distribution by woreda

		HCS					MCS									
	Woredas	**Babile**	**Deder**	**Melka Bello**	**Midega Tola**	**Dire dawa Zuria**	**Siraro**	**Shalla**	**Arsi Negele**	**Heben Arsi**	**Zeway Dugda**	**ATJK**	**Boset**	**Dodota**	**Sire**	**Total**
	PSNP Kebeles	20	30	20	20	40	20	30	30	10	20	30	10	20	20	**320**
1	**SACCO Unions**			Burka Gudina			Doro Shalla	Doro Shalla	Doro Shalla	Doro Shalla		Biftu Batu	Awash Unin	Keleta union	Keleta Union	
2	**Number of RuSACCO**	5	7	6	5	8	5	6	3	1	6	8	1	2	3	**66**
3	**FGD**	2	3	2	2	4	2	3	2	1	2	3	1	2	2	**31**
4	**MFI**	OCSSCO	OCSSCO		OCSSCO	Dire	OCSSCO	OCSSCO, Metemame	OCSSCO, Metemamen	OCSSCO	OCSSCO, Metemamen	OCSSCO, Metemame	OCSSCO, Vision Fund,	OCSSCO, Meklit	OCSSCO, Metemamen , Meklit	**6**
5	**MF Branch institution**	1	1		1	1	1	2	2	1	2	2	3	2	3	**22**
6	**Stekeholders**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	**14**

Assessment tools

Assessment tools that were developed and used for the assessment included a separate questionnaire for each of the following categories:

a. MFI senior management team at the Head Office;
b. MFI branches;
c. RuSACCO Unions;
d. RuSACCOs;
e. A guide and checklist for FGD participants from LGs and;
f. Questionnaire and checklist for Key Informant Interviewees.

FINDINGS

1. Organizational Capacity Assessment for Microfinance Institutions

Key Challenges and Opportunities of MFI Head and Branch Offices

Report from the assessed MFIs show the following areas of challenges and opportunities faced by these institutions in Activity areas.

	Head Office	Branch offices
Key Challenges	• Community reluctance to repay loans and bad experience with loans in some areas. • Liquidity problems (shortage of loanable funds); • Geographic remoteness and associated logistical problems. • Areas prone to frequent drought leading to poor loan performance • Loan diversion to other unintended use • Lack of hardware and logistical support for remote low-density areas • Unrest and insecurity from the past years has affected loan performance • Seasonality of income affects cash flow for frequent loan repayments • NGOs have infused dependency syndrome that misguides loan clients when receiving loans from FSPs linked to NGO partners. Poor communication to clients who think loans are a donation from NGOs; • Agricultural loans are high risk due to natural calamities; • Low securitization on loans through group lending; • High operational costs to reach remote PSNP clients.	• Clients lack of commitment/willingness to repay loan • Shortage of loanable fund-liquidity • Market fluctuation affecting loan repayment-default • Drought, low productivity of the area • Dependency syndrome • Inadequacy of branch facilities - transportation, office rooms, office equipment (computer) • Un-planned loan and investment by borrowed money by clients • Weak support from /integration with woreda stakeholders • Security and stability in the area • Some program interventions, loan disbursements without enforcement of repayments • Household indebtedness-double loan • Communities lack of awareness on loan repayment • Low demand to borrow • Remoteness and weak infrastructure facility.
Key Opportunities	• Potential to roll out different loan products depending on favorable weather patterns. • Adequate market for product diversification. • High demand for loan (and other financial services?). Large customer base • Favorable business opportunities in the woredas (political stability?) • Good reputation of some FSPs from the community. • Opportunities for collaboration with some NGOs.	• Adequate market for product diversification • High demand for loan • Partnership and collaboration with NGOs and government stakeholders • Adequacy of loanable fund • Entrepreneurial knowledge of target market- women (Babile), • Promising saving culture

	• Partnership with MCS to implement loan guarantee fund • Growing savings culture among clients in savings groups.	

Key challenges and opportunities had different significance depending on the MFI assessed. Generally, most MFI had the right management and operational structures. Different branch offices had different challenges and opportunities. Capacity gaps in the areas of Management Information System (MIS), logistics, and training varied depending on MFI and also depending on head office or branch office. Additionally, a challenge in some woreda may not be the same in another, and it could as well be identified as key opportunity. OCSCO, Metamamen and Vision Fund MFIs demonstrated strong indicators in most of the areas assessed as compared to other MFIs.

2. Organizational Capacity Assessment for RuSACCO Unions and RuSACCOs

Five RuSACCO unions which are operating in the Activities operation areas of MCS and HCS were considered in the assessment. Duro Shala in West Arsi Zone, Biftu Batu and Awash Unions from East Shewa Zone, Kalata union from Arsi Zone, and Burka Gudina of Babile woreda. Of these, Duro Shala and Awash unions have the highest membership.

Overall, 67 RuSACCOs (35 in MCS and 32 in HCS areas) were included in the assessment. A total of 18,158 community members were organized under the RuSACCOs as at July 2010 Ethiopian Calendar (EC) with average membership ranging from 63 to 531 per RuSACCO.

All RuSACCOs have members who are PSNP beneficiaries. Majority of them have youth in their membership and allow two or more members from a household to participate. In some RuSACCOs, in Arsi Negele, Midega Tola and Melka Belo, youth constitute 24 - 35% of the membership. There are RuSACCOs where female constitute 100%, and most of them have more than 70% of the total members are female. As per the assessment results, most of RuSACCOs showed that their membership had increased during the last two years.

Trainings need mentioned by the RuSACCOs are principles of cooperatives, loan management, product development and marketing, promotion skills, cooperative management and leadership, business skill, credit risk management auditing and preparing balance sheet statement are areas of training recommended by RuSACCOs.

Some of the RuSACCOs operating in MCS areas have prior work experience with different NGOs (Catholic, MCS, OSHO, child fund, Rift Valley Women and Children Development, Self Help Africa).

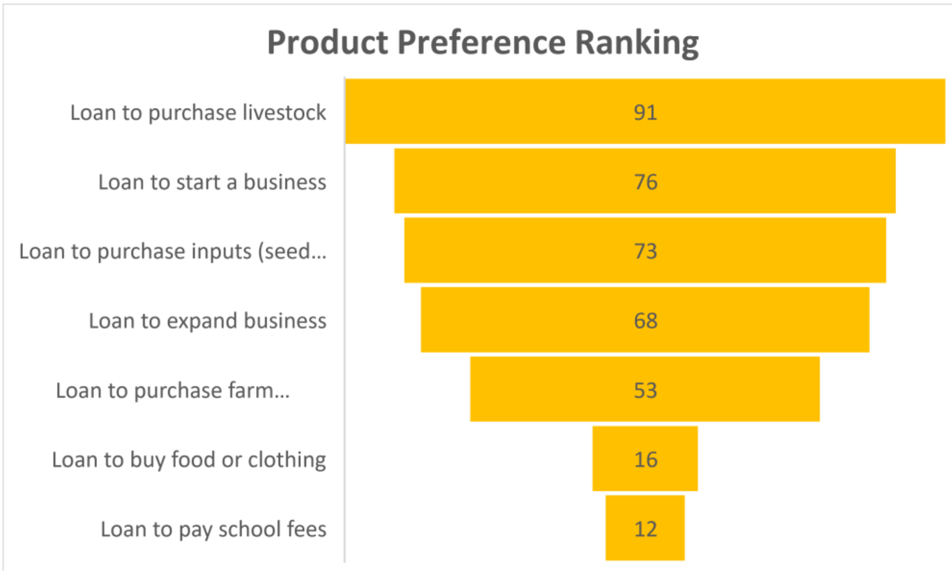
Most RuSACCOs reported poor savings mobilization and high arrears rates that affected their loanable fund and general performance in Activity areas. The section below highlights areas that need capacity building in relation to these challenges as shown below.

Factors affecting regularity of savings in RuSACCOs	• Seasonality of income due to smallholder dependence on rainfed agriculture. • Weaknesses in management committee (specify) • Lack of trust in management committee • Lack of support from management committee • Lack of interest from members • Drought • Some new members do not respect by-laws • Lack of capacity to save • Some new members take too long before they start savings (some haven't started saving yet)
Type of trainings needed	• Record keeping • Credit Management • Cooperative By-Laws • Financial Education • Entrepreneurship training • Business Plan/Strategic Plan preparation • Savings mobilization • RuSACCO management including member mobilization • Financial Management • Micro-insurance

3. Demand side Analysis: Livelihood Group Members

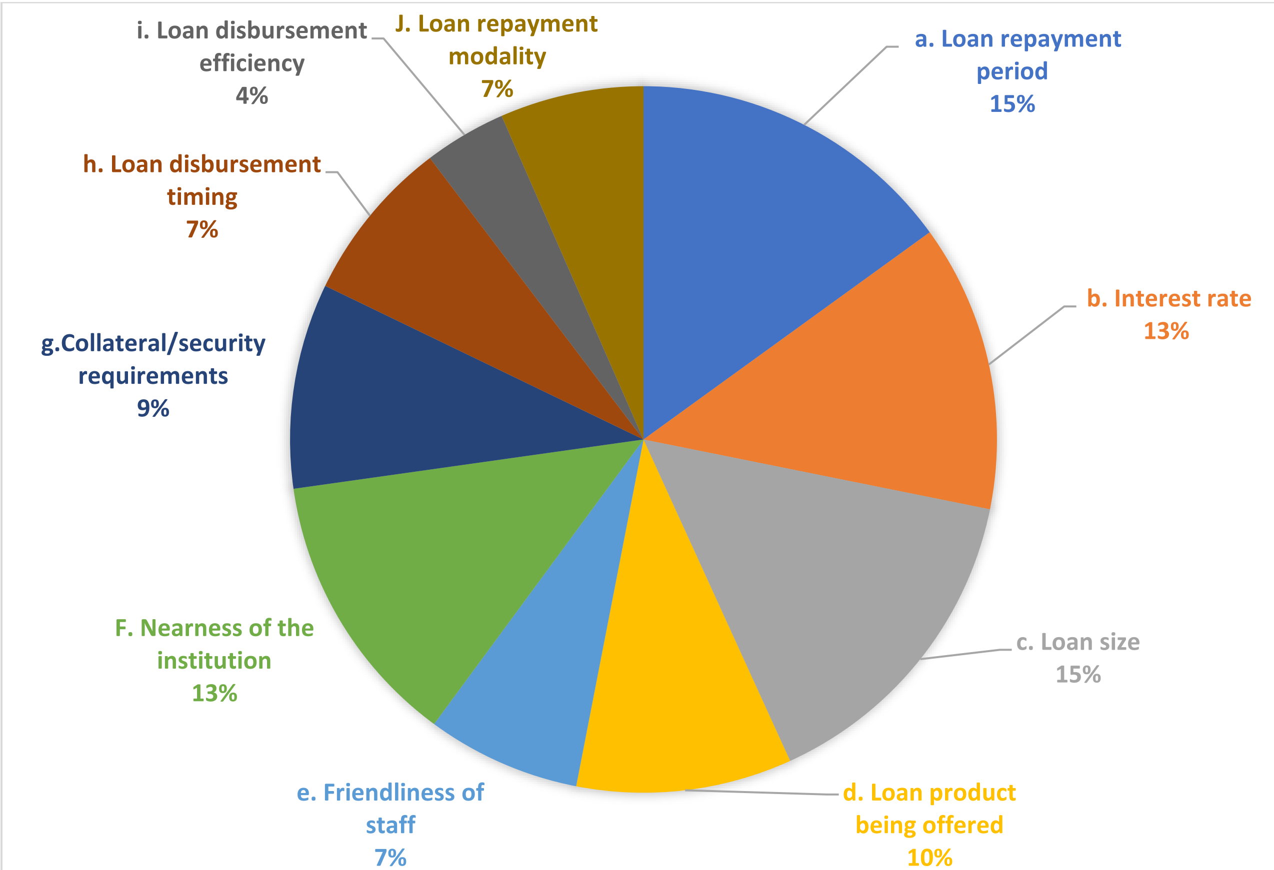
To understand PSNP beneficiaries needs, financial service preferences and their perception of FSPs, 31 FGDs were conducted with PSNP beneficiaries in 31 PSNP kebeles with the following results:

a. PSNP clients' product preference



PSNP beneficiaries have a high preference for loans that enable them to stock up their livestock. This is followed by business start-up loans and loans for agricultural production. FSP providers may not have loans for start-ups and hence business planning exercises under the Activities play a leading role in assessing sources of capital for these start ups in a financial landscape that does not provide business start-up loans. Such clients should mobilize low risk sources of credit such as individual savings through SILC groups. This reinforces the point that LG members should be part of savings groups to address such borrowing needs.

b. Factors that affect Borrowing Decisions for PSNP Beneficiaries

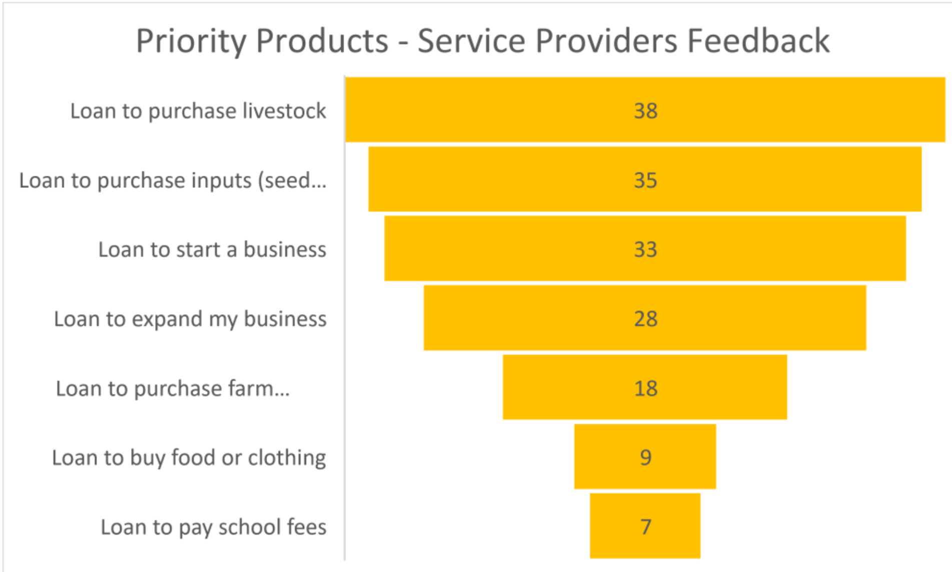


The results indicate that proximity of the institution (13%) loan size (15%), loan product (10%) and interest rate (13%) are the most prominent factors that PSNP beneficiaries consider in making borrowing decisions. While proximity of institution plays in favor of RuSACCOs, the rest of the prominent factors play in favor of MFIs. Strong MFIs are those that combine these factors while being as close to the client as possible. MFIs that have introduced Digital Financial Services (DFS) have an added advantage of increasing efficiency while expanding outreach through a combination of the above factors.

4. Supply-side: Financial Services Providers

The assessment compared feedback from LG and other community members (demand-side) with FSP response on similar questions. The results are captured below.

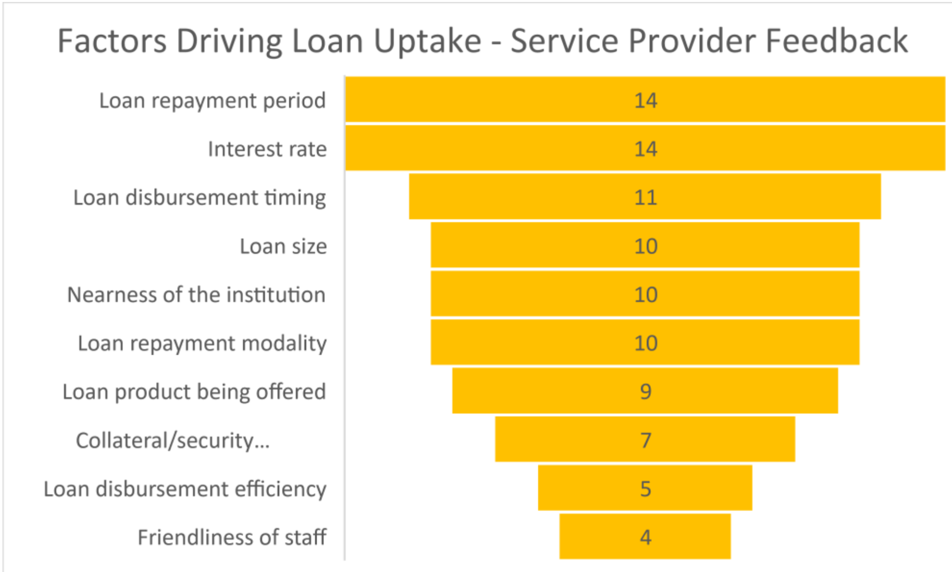
a. FSP Product Rating Demand in Target Woredas



It was interesting to note similarities between priority products on demand-side and FSP understanding of the same. The question then becomes, why are FSPs not developing products that respond to demand-side needs? The organizational capacity report on Annex 1 reveals a number of reasons ranging from human, operational and financial capacity that limit FSPs ability to respond to known product preferences on the demand-side. This makes most FSPs operate below capacity or sub-optimal. While MFIs have ability to respond given support from the Activity through loan guarantee funds, RuSACCOs and RuSACCOs Unions have very low capacity to respond and will need more time for capacity building which may delay project deliverables given the timeline.

b. Factors to be considered before clients take up a loan: FSP perspective

The assessment further considered factors that need consideration to ensure a healthy product portfolio. FSPs were required to provide responses to key factors that they would advise PSNP clients to consider before making borrowing decisions. The below chart highlights the responses.



As per responses from clients in (b) *demand-side factors that affect borrowing decisions*, there was no significant deviation between demand-side and supply-side responses to this question. In conclusion, while demand-side and supply-side have similar positions on product preferences and considerations for borrowing, other sections of the report reveal that FSPs and PSNP clients have different perceptions towards each other. This demonstrates very little interaction between FSPs and PSNP clients hence poor communication or awareness meetings that lead to poor perceptions and unwarranted client behavior once loans have been disbursed. Financial Education by the Activity can be used to address knowledge gaps and perception issues between PSNP clients and FSPs thereby enhancing product uptake and improve loan performance.

5. FSP Experience with Loan Guarantee Fund Utilization

Below table shows responses from 5 MFIs and 1 Cooperative Union[1] that were interviewed during the MFI/RuSACCO capacity assessment. Comments from CRS indicate possible project interventions or recommendations

Issue	MFI Response(s)	CRS Recommendations/Intervention
Experience in utilization of loan guarantee fund	Apart from Gasha and Dire MFI, all respondents had experience with loan guarantee fund	Individual capacity and lessons from each respondent should determine action plan for the project (see responses to best practices and challenges in the excel sheet)
Best practices vs challenges in administration of loan guarantee fund	**Best Practices (summary):** • Facilitated increase in depth of outreach to previously underserved populations. • Continuous monitoring and periodic evaluation by partners • Risk-sharing and identification of credit-worthy clients through partners helps to deepen outreach.	CRS needs to build more on the gains made from previous LGF experiences. Most FSP claim that the remoteness of PSNP clients (LGs) is an operationally challenge and prefer support in monitoring these groups. Another point: FSPs want CRS to participate in identification of credit-worthy clients to help disburse quality loans. A meeting to discuss the process and expectations between selected FSPs and CRS is necessary as part of the outreach process.
	Challenges (summary): • Less productive loans in terms of size coupled with high risk. • MFI still covers part of the risk in a high-risk market. • Remoteness of PSNP clients. • 'Donation' mentality by clients who know that this is part of NGO intervention. • Rush to give loans by NGOs without proper assessments led to poor quality loans and defaults.	• Loans have to be matched by capacity as seen in savings behavior in a SILC meeting. Clients who are not savings within an LG-SILC are obviously high-risk. The nature of a LGF is to encourage an MFI to depend outreach and not to transfer the entire risk to the guarantor. • Loans should be seen as part of MFI products and not CRS. Client orientation is critical to address this issue. CRS and MFI should share messaging approaches to this during their client onboarding process. • Due diligence still has to be followed to get good loans out. CRS does not intend to rush MFIs to give out loans to LGs without following MF Best Practices.

[1]MFIs interviewed included: Metemamen; Vision Fund; OCSCO; Meklit; Gasha and Dire.

Interest (willingness) in long-term partnership and expectations.	FSPs are willing to partner and engage in long-term partnerships to serve PSNP clients if the following conditions are met: • NGOs do not interfere in client selection process; • Clear risk-sharing modalities; • Capacity building in terms of software and hardware development including logistical support; and • Client groups are mature enough and protected from over-indebtedness;	• While the client group is defined (LGs/PSNP beneficiary) MFIs have the right to determine credit worthiness of the individual clients within LGs. We understand that not all LGs members are legible for MFI loans but CRS will try as much to prepare LG households to be low-risk. This includes financial education training, training on business planning, ensuring participation in SILC to build savings as an asset etc). • Agreement between MFI and CRS on LGF should include risk-sharing modalities and capacity building commitments. • CRS Guidelines for Financial Linkages already exist and should be used in guiding this process. *See Annex 2*
Key challenges faced by MFI and its branches	• Agricultural loans are high risk due to natural calamities; • Low securitization on loans through group lending; • Liquidity problems (shortage of loanable funds); • NGO mind-set of clients leads to poor portfolio performance; • High operational costs to reach remote PSNP clients; • Poor communication to clients who think loans are a donation from NGOs; • Capacity gaps (MIS, logistics, training) • Bad experience with loans in some areas	• Agricultural loans are important to the households we serve. Their risk profile is high but other factors can be considered to make the client low risk, e.g. other IGAs that the client is involved in. • While there is no other option to securitize the loan apart from group guarantee, the risk of a member defaulting affects the entire group fund. The other weakness is that SILC members will not want to commit their loan fund as security because they want to deposit and borrow from it in every meeting throughout the cycle. • Capacity needs should be specifically addressed once the MFI partner has been selected.
Key Opportunities for the MFI and its branch networks	• Political stability and good weather condition; • Existence of partners like WEDP and projects like LRO helps to expand outreach; • Growing entrepreneurship mindset of communities; • Increased partnership requests from different stakeholders; • Opportunities to increase client outreach and loan	• After selection of MFI partner, we need to conduct a stakeholder analysis to understand which other partners are involved with the MFI and in the area of interest. How then do we build synergies?

	portfolio besides expansion of operational areas; • High demand for MFI loans against a backdrop of improving economic growth coupled with infrastructural development; and • Availability of skilled manpower.	

CONCLUSION

Conclusion (Strength, Opportunities, Challenges and key capacity gaps)

FSPs in target woredas demonstrate good capacity albeit in varying levels. The level of effort engaged in building their capacity will vary depending on where they are in the Financial Linkages journey and special focus on PSNP clients. CRS appreciates that there are key challenges and limitations that require focused intervention in order to make linkages functional and productive on both sides. Similarly, MFI branches and RuSACCOs have their own strengths and gaps depending on the area assessed.

Strength and opportunities of MFIs

The MFIs assessed have institutionalized management and organizational structures and have all the required management staff required with the necessary professional experience in the industry. They have also good partnership experience of working with NGOs and GOs.

The MFIs are in good position in terms of outreach. Majority of them have options to provide all services like loan disbursement and repayment, savings collection and withdrawal at satellite offices or kebeles. Majority of the MFIs branch offices have presence at remote rural areas. All MFIs have been operational in the country for more than 5 years and they offer range of products and services like on-farm, off-farm, MSE loans, saving, credit life insurance.

OCSSCO and Dire MFIs have Sharia-compliant loan products and other MFIs have commitment to the pro-poor approach and have additional services that focus on women empowerment, youth, integrated approach like adult literacy and health programs.

Concerning working with marginalized communities, majority of the MFIs assessed have social performance management (SPM) in place and they have interest to work with them. Metemamen, Vision Fund, OCSSCO and Meklit (except Gasha and Dire MFI) had experience of loan guarantee fund utilization with different organizations.

The MFIs assessed have experience of working with saving groups (VSLA, SILC, SHG) and all MFIs have similar lending methodologies that can apply to work with poor community. They also apply Social Performance Management (SPM) in place and willing to serve PSNP beneficiaries.

The MFIs are financially growing over the last two years with a positive portfolio growth and reasonable portfolio quality as measured by portfolio at risk. They have positive net income, are financial and operationally self-sufficient and have good Return on Asset value.

The MFIs have good staff productivity as measured by clients to loan officers ratios which is within the standard and they send staff to external and external trainings to build their knowledge and skill in the sector. Majority of the MFIs also implement performance-based incentive.

Capacity gaps and challenges of MFIs

Among those that were assessed, most MFIs were weak in terms of Digital Financial Services like mobile money, agency banking and mobile banking. Some MFI branch offices also provide only partial services at sites.

MFIs are weak in terms of coverage where most branch offices of the MFIs cover only less than 1% of the total population of the woreda. It is only OCSSCO that covers majority PSNP kebeles while others cover limited number of PSNP kebeles. In addition, they had no experience in providing loans and loan products to RuSACCOs and RuSACCO Unions.

MFI branch offices had capacity gaps in areas of logistics gaps including office furniture. There were few motorbikes with one assigned to more than one staff.

Low liquidity was an issue affecting most MFIs in target areas. OCSSCO, Vision Fund and Dire MFIs were the only institutions that seem not to have problems with liquidity. Besides liquidity, a good number of these institutions did not have a fully computerized MIS system. Apart from Vision Fund which had a fully computerized MIS system, all other MFIs used a manual MIS system.

Communities reluctance to pay loan on time coupled with geographic remoteness forced MFIs to incur high operational costs discouraging MFIs to reach PSNP clients that reside in remote areas.

Frequent drought and market fluctuation leading to poor loan performance, seasonality of clients' income, loan diversion and household indebtedness.

RuSACCOs and RuSACCO unions

Strength of RuSACCOs/RuSACCO unions

The RuSACCOs and the unions' leadership had a vision, mission and operational plan for their businesses. Majority of the unions and RUSACCOs had accountants /bookkeepers/ to maintain financial recordings and they have been audited during for the last three years.

Almost all unions gave priority for women membership and the total membership show increasing trends over the last three years prior to the assessment. All RuSACCOs had members who are PSNP beneficiaries and allowed two or more members from a household to participate. Majority of

RUSACCOs had youthful membership and in some RuSACCOs, such as in Arsi Negele, Midega Tola and Melka Belo, youth constituted 24% to 35% of the membership.

The assessment revealed that RuSACCOs used mainly savings as source of loan to members but there were also some RuSACCOs that used loans from unions and revolving funds as additional source of credit for their members. On top of this, to increase their loan fund, the unions had also experience of borrowing from external sources.

The assessment also showed that RUSACCOs provide loans both for on-farm and off-farm activities and fattening, agricultural input purchase, small ruminant rearing (goat and sheep), grain trading and petty trade.

The unions had offices, office furniture and supplies except Burka Gudina union. They also have adequate number of staffs assigned except Burka Gudina and Awash unions.

Capacity gaps of RuSACCOs and RuSACCO unions

The RuSACCOs had capacity gaps in strategic plan preparation while there were cases of bookkeepers having limited capacity to manage records. Although most RuSACCOs had office space, they were mostly old and inadequate. Business plan preparation capacity was also a key gap in RuSACCOs that required technical support.

RuSACCOs had a problem in mobilizing savings which affected their loanable funds. This was exacerbated by poor loan repayment by members. None of the RuSACCOs got MFI or bank loans as source of loan fund to their members, though the unions had experience of taking loan from banks.

Understandably, due to low savings mobilization and a poor loan repayment culture, loan disbursements to RuSACCO members was low for the last three years. Except Kalata union, the other unions were not able to provide loan to their member RuSACCOs in the last three years. Lack of loanable fund and delayed repayment from RuSACCOs were the reasons mentioned by the respondents. Shortage of loanable fund is the major limiting factor for all RuSACCOs arising from infrequent savings by members, poor repayment of loans, and weak resource mobilization capacity.

Except some committees and bookkeepers of some RuSACCOs, majorities of the RuSACCOs management reported that they did not receive any type of training.

RECOMMENDATIONS

1. FSP prioritization

To address PSNP beneficiaries' financial services gap in the two Activities (DFSA and LRO) operational woredas, the following FSPs were selected considering the following factors: operational and financial performance; willingness to serve PSNP communities; availability of services at kebele level; prior experience of FSPs working with CRS and its partners on serving PSNP clients; and the PSNP client's perception and preferences.

Intervention area	FSPs recommended	Remark/ reason for prioritization	Recommended for Woredas
MCS	1. Metemamen MFI	- Operational capacity - Willingness to serve PSNP clients and prior experience with CRS and its partners during GRAD-1 - leveraging the loan guarantee fund provided during GRAD – 1 - Branches presence and willingness to open new branches if agreed on terms and conditions	- Shalla, Arsi Negele, Sire, Zeway Dugda, Heben Arsi and ATJK
	2. Keleta RuSACCO unions	- Willingness to serve PSNP clients - Member RuSACCOs presence in Most of Dodota and Sire woredas - Proximity to members and community's preference	- Sire - Dodota
	3. Vision Fund MFI	- Financial and operational capacity (Liquidity is not a problem) - Willing to serve PSNP clients and prior experience of serving PSNP clients	- Dodota, - Boset - Siraro
	4. OCSSCO MFI	- Woreda level presence - Financial and operational capacity (Liquidity is not a problem) - Willing to serve - Experience of loan guarantee fund (GRAD 1) and youth revolving fund - Experience of digital finance	- All operation woredas
	5. Meklit MFI	- Willing to serve - GRAD 1 experience of Loan Guarantee fund	- ATJK
	6. Awash RuSACCO union	- Financial capacity - Willing to serve - Presence in the operation area - Proximity to members	- Boset

	7. Doro Shalla RuSACCO union	- RuSACCOs presence at most of the PSNP kebeles - Proximity to members and community's preference	- Siraro - Arsi Negele
HCS	1. OCSSCO MFI	- Woreda level presence - Financial and operational capacity (Liquidity is not a problem) - Willing to serve - Experience of loan guarantee fund (GRAD I) and youth revolving fund - Experience of digital finance	- All operation woredas
	2. Dire MFI	- Operational capacity - Presence in Diredawa zuria kebeles - Willing to serve	- Dire Dawa
	3. Burka Gudina	- Presence in Babile woreda - Leveraging loanable fund from PSNP -3 - Experience of serving PSNP clients - Proximity to members	- Babile
	4. Potential Primary RuSACCOs	- Financial capacity- few of them have - Initially formed to serve PSNP-3 beneficiaries - Leveraging loanable fund from PSNP -3 - Proximity to members	- Melka Belo - All HCS- DFSA operation woredas

2. Capacity Gap Intervention

Major gaps identified during assessment include liquidity management; geographic remoteness of the PSNP beneficiaries and associated logistical problems; poor infrastructure including limited transportation and office facilities; and staff's skill in customer care. Other areas were client mobilization skills, credit management and promoting a savings culture. These were the major training gaps that were key challenges shared by FSPs. Hence, considering these gaps and DFSAs' and LRO's scope and mandate to build partner FSP capacity, the following intervention areas were identified.

a. **Improving liquidity management of both MFIs and RuSACCOs.** As indicated by FSPs, this problem mainly emanated from capacity of FSPs on savings mobilization and delaying loan repayment by communities, where in some cases loan defaulting was the major cause. Therefore, DFSA and LRO could support FSPS through:

- Introducing targeted savings in LGs and use FSP accounts for safe custody;
- Identification of credit worthy clients within LGs but without affecting group dynamics;
- Consistent monitoring of loan utilization and reminding borrowers to pay their loans on time using a computerized MIS;
- Increasing FSPs risk appetite by availing loanable funds through the loan guarantee fund.

b. **Improve logistics/ transportation services.** Lack of logistics mainly, means of transport affected proximity of services to clients and monitoring support by FSPs.
Providing motorbikes to branch offices and to Unions will reduce traveling of PSNP HHs to branch offices of respective FSPs, improve loan and client monitoring, enhance saving mobilization and increase support from the Union to its RuSACCOs,

c. **Support office furniture, office supplies and computer equipment:** This would improve quality of reporting, service delivery and efficiency and staff morale.

d. **Improve technical capacity of the staff through training and experience sharing:** Staff are a central part of the service delivery to the poor. For this reason, the following trainings (not in order of priority) were recommended.

- Record keeping
- Credit Management
- Cooperative By-Laws
- Financial Education
- Entrepreneurship training
- Business Plan/Strategic Plan preparation
- Savings mobilization
- RuSACCO management including member mobilization
- Financial Management
- Micro-insurance
- Experience sharing to branches, RusSACCOs, management and board

e. **FSPs to improve the work environment and incentives for the staff:** Guide FSPs, mainly RuSACCOs to recruit experienced staffs and to implement performance monitoring as well as incentivizing well performing staffs help them reduce staff dropouts.

f. **Support development of Computerized MIS**: Automated transactions' management is crucial for FSPs to help them manage daily routines and maintain long-term partnership with CRS and its partners. Support in this regard, enhances the MFI's services delivery to its partners and to upscale itself allied with partners' requirement.

g. **Motivating FSPs to introduce Digital Financial Services:** PSNP clients are geographically remote and financially excluded. MFIs can enhance outreach through DFS structures such as agency banking and mobile money platforms. This has proven to deliver results and increase competitive advantage of FSPs. However, significant capacity building needs to be done for FSPs to move to this level. CRS can study how Vision Fund has introduced DFS in its operations and share lessons with other selected FSPs.

h. **Contextual Approach:** Finally, while limitations, challenges, and capacity gaps of each FSPs varies from one to another, it is important to understand/ identify the specific limitation/ gaps of selected individual FSPs prior to linking LGs to FSPs to better manage the implementation of the capacity building interventions.

Annexes

Annex 1: DETAILED RESULTS FOR ORGANIZATIONAL CAPACITY ASSESSMENT SECTION 1: Microfinance Institutions

a. MFI Head Office

Management and Organizational Structure

In terms of the management and organizational structure, the senior management of all MFIs have experience in the industry:

- All MFIs have key management staff assigned to each structure
- All MFIs assessed have working experience with NGOs and GOs
- All MFIs explained that they had good experience in their previous engagement with NGOs/GOs, (management integrity)

Outreach and Operation

Outreach

In reference to outreach, MFIs (Dire, Meklit, Metemamen, and OCSSCO) have options to provide all the services (loan disbursement and repayment, savings collection and withdrawal) at satellite offices or kebeles. Other MFIs (e.g. Gasha and Vision Fund) only provide part of the services at field level.

The number of borrowers for MFI products ranged from 4,000 to 1million. OCSSCO and Vision Fund are the largest FSPs in terms of outreach and coverage. The rest have very small number of borrowers. Similarly, loan portfolio ranges from 45m to 8 billion. OCSSCO is the largest portfolio owner followed by Vision Fund. Furthermore, the average loan portfolio of MFIs is 10,500 birr.

Outreach and Financial Performance of MFIs

MFI	Number of borrowers	Saving balance	Total outstanding loan	Average loan portfolio balance
Dire	10,491	240,184,867	255,338,085	24,339
Gasha	4,100	28,000,000	45,000,000	10,976
Meklit	20,000	42,000	110,000,000	5,500
Metemamen MFI	21,037	103,000,000	188,000,000	8,937
OCSSCO	1,096,815	4,261,562,034	8,325,767,911	7,591
Vision fund	165,000	476,918,000	1,030,000,000	6,242

The assessment also revealed the following indicators:

- All MFIs have more savers than borrowers;
- As indicated in the above table, all MFIs are licensed to mobilize savings;

- Vision Fund has additional services that focus on women empowerment, integrated approaches such as adult literacy and health programs; and loan services to the youth. Other MFIs also have services that focus on women and youth;
- All MFIs have commitment to the pro-poor approach.

Operations

It was found that all MFIs have been operational for more than five years. They also follow the Know Your Customer (KYC) procedures and requirements, in which the KYC documentations and process of credit officer works are crosschecked by second person (branch manager/supervisor). Range of products and services offered by most MFIs are: on-farm, off-farm, MSE loans, saving, credit life insurance. On top of this, OCSSCO and Dire MFIs have Sharia-compliant loan products.

With the exceptions of Dire and Gasha MFIs, all have experience of working with saving groups (VSLA, SILC, SHG). Additionally, all MFIs have similar lending methodologies that apply solidarity group and individual lending. All MFIs also use group collateral to lend to groups, however in some cases they also require personal guarantor for loans above given limits. Interest rate of the assessed MFIs ranges from 8-24%. MFIs charging 8% are focused on Youth Revolving Fund. Average lending rate of the assessed MFIs is 18.5%. In most cases agricultural loans have higher interest rates.

The assessment further found that MFIs have some additional charges, such as application fees that ranges from 2 - 3%, credit life insurance ranging from 1 - 2.5% charged on approved loan amounts. All MFIs have different terms for loans (short, medium and long-term) ranging from 3 months to 5 years. Most rural agricultural loans are provided for one year or less. They have both balloon (one time repayment) loans and installment loan options. MFI's loan sizes also vary. Specifically, there are different options for loan sizes. As small as 500 birr to as high as 3 million birr. First cycle loans on average range from 4,000 to 10,000 birr. As it can be seen from branch responses, majority of the MFI branches first cycle loan is less than 6,000 birr. All MFIs have responded that they have systems and policies to manage their day to day portfolio activities and associated risks. In cases of default the MFI have closer follow up procedures for portfolio management. Source of financing for loan portfolio of all MFIs assessed is savings mobilized (deposits). Further, except for Dire and Meklit, other MFIs uses commercial sources to finance their operation. However, liquidity is an issue to finance their operation (loan). As per the response from MFIs, except for OCSSCO, Vision Fund and Dire MFIs, the other MFIs' bases on their disbursement plan to address loan requests from clients. Apart from Vision Fund which has a fully computerized MIS system, all MFIs use manual MIS system. However, there is some initial work, in these MFIs to adopt fully computerized MIS systems. E.g. OCSSCO in Boset, Metemamen in Sire, Meklit in Dodota. In addition, Metemamen MFI has an MIS system that works loan performing system. Except Meklit MFI, all MFIs have associated non-financial services, like financial education, group management, bookkeeping, and Business Development Services.

Human resource

With regards to staff productivity, all MFI staff; and savings and credit officers are found productive as measured by clients to loan officers ratios. Loan clients per staff and Loan Clients per Savings and Credit officer is >138 and >262 respectively which is within the standard.

It was found that MFIs send their staff often to external trainings and they also provide internal trainings to their staff. The MFIs have low staff turnover of <12% and they have also performance related incentive mechanism for staff and it is said that it is practically implemented by the MFIs for human resource management purpose.

Branch facilities

Concerning facilities, all MFIs except Metemamen have adequate office furniture and equipment at the Head office. All MFIs have adequate motorbikes for staff. The staff of Meklit, Metemamen and Vision Fund use on average one motorbike for two staff while the other MFIs have one motorbike per loan officer.

Signs of growth

All MFIs assessed had positive net income and the financial self-sufficiency ranged from 80% - 100%. In addition, the MFIs were operationally self-sufficient with an operational self-sufficiency of >100%. The Return of Asset value also indicates that all MFIs are in a good performance as measured by the industry standard (>3%...reference). However, the Operational Efficiency Ratio for all MFIs assessed is within the range of 20-30% which is below the preferred industry standard (<20%...reference).

Concerning portfolio growth rate, the average portfolio growth rate for all MFIs is 30% in between 2009 and 2010 EC while Vision Fund and Meklit MFIs grown by 47% and 36%, respectively. All MFIs have also growth targets (plan), in-terms of client outreach and portfolio.

Three MFIs had a loan repayment rate of above 95%, whereas two MFI indicated that the rate is less than 95%. Except one MFI, all MFIs were within acceptable rates in terms of Portfolio at Risk (PAR) ratio as measured by 30 days (less than 5%) and majority of the MFIs' asset is allocated for loan. Except two MFIs, Gasha and OCSSCO, the rest all MFIs allocated more than 80% of their asset for loan portfolio).

Experience in financial inclusion

Regarding working with marginalized communities, majority of the MFIs assessed have Social performance management (SPM) in place and replied that they are willing to initiate and implement SPM. However, they had no experience in providing loans and loan products to RuSACCOs and RuSACCO Unions and only Metemamen and OCSSCO had experience working with the implementing partners of the projects (MCS and HCS).

Concerning loan guarantee fund (LGF) utilization, Metemamen, Vision Fund, OCSSCO and Meklit (except Gasha and Dire MFI) had experience of LGF utilization with different organizations. See appendix on page …for results on loan guarantee fund

b. MFI Branch Office

Outreach

Number of branches assessed

22 branch offices of the six MFIs are assessed, those are operational in the Activities area

	MFI	# of branches assessed		Total
		HCS woredas	MCS woredas	
1	Meklit		2	2
2	OCSSCO	3	9	12
3	Vision Fund		1	1
4	Dire	1		1
5	Metemamen		5	5
6	Gasha		1	1
	Total	4	18	22

MFI Branch Office presence

As it is shown in the table below, OCSSCO has branch offices in all the assessed woredas except at Dire Dawa. Except Sire and Boset woredas, the rest have two or less MFI branch offices.

	MCS									HCS				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Siraro	Shalla	A/Negele	Heben Arsi	ATJK	Zeway Dugda	Dodota	Sire	Boset	Dire Dawa	Deder	Midega tola	Babile	Melka belo
OCSSCO	X	X	X	X	X	X	X	X	X		X	X	X	
Metemamen		X	X		X	X		X						
Meklit							X	X						
Vision Fund									X					
Gasha									X					
Dire										X				
Total # of branches	1	2	2	1	2	2	2	3	3	1	1	1	1	0

Coverage

OCSSCO branches cover majority of the woreda kebeles. Nine branches of OCSSCO cover about 75% of the kebeles in the woreda they operate.

	% of kebeles covered				
	75%	50-75%	25-50%	<25%	Total # of branches

OCSSCO branches	9	1	1	1	12
Metemamen		1	3	1	5
Meklit			1	1	2
Vision Fund				1	1
Gasha				1	1
Dire	1				1
					22

Coverage in-terms of number of borrowers as percentage of total population of the woredas is very small. Most branch offices of the MFIs cover only less than 1% of the total population of the woreda.

Proximity

Majority of MFIs branch offices (55%) are found at a distance of 15-30 km from the target kebeles and 32% of the branch offices are far by more than 30 km from the target beneficiaries.

Proximity of microfinance services (How far is the average distance of branch office from the target client?)	# of branches	%	
>30 KM	7	32%	
15-30km	12	55%	
<15km	3	14%	
Total	22		

Services delivery at kebele sites

Out of the assessed MFIs, only Metemamen MFI (at Shall and Zeway Dugda), and OCSSCO (at Boset, Babile and Deder branch offices) have satellite offices where they disburse loan, and collect repayments, savings collection and withdrawals take place. While some other MFI branch offices provide partial services at sites.

Digital financial services

OCSSCO, Vision Fund and Gasha MFIs were the only FSPs that had started offering Digital Financial Services (DFS) such as mobile money, agency banking and mobile banking.

PSNP coverage of branch offices

PSNP kebeles coverage of branch offices. Most of the OCSSCO branches cover, majority of the PSNP kebeles.

	75%	50-75%	25-50%	<25%	Total # of branches
OCSSCO branches	7	3	2		12
Metemamen		1	4		5
Meklit			1	1	2
Vision Fund				1	1
Gasha				1	1
Dire			1		1
					22

Geographic distribution of loan clients of the branch

Majority of the MFIs branch offices have presence at remote rural areas. 16 out of 22 branches (73%) have remote rural operation.

Number of active borrowers: Ranges from 379 to 3371. New branches of Metemamen MFI do not have clients yet.

	<500	500-1000	1000-2000	>2000	
# of Branches	7	4	4	7	22
				Branch offices of OCSCCO have wider outreach in terms of number of loan client	

Loan portfolio: Ranges from 2.4 to 33.5 million birr. New branches of Metemamen MFI do not have portfolio

	<2.5m	2.5-5m	5-10m	10-20m	>20m	
# of branches	2	2	6	7	5	23
				OCSSCO branches have wider outreach in terms of portfolio		

Average portfolio balance per borrower ranges from 1,915 to 40,000 birr.

Number of savers

Majority of the branches (18) have savers more than the number of borrowers. And Saving balance ranges from 25,000 to 22 million birr, with average saving per branch 3.8 million birr. To be checked for OCSSCO ATJK data

Targeting the poorest-refer above 'c' coverage

As their respective MFI strategy, majority of the branches have focus in serving women (proportion of women > 50%). Some MFIs have women specific products: Vision Fund, OCCSCO, Meklit MFIs. Except Meklit MFI which has youth specific saving, product, other MFIs do not have either loan or saving product specific to youth.

Human resources

As per the response of branch offices, almost all branch offices of the MFIs have adequate staff assigned. In terms of branch staff productivity, except some branches (3), is good as measured by clients per staff and per savings and credit officer. Branch staffs have microfinance experiences that enable them to manage the day to day activity. Majority of the branches are trained with internal resources, while about some branch offices reported that they have participated external trainings (external to the institution) and they have motivated staff. However, there are branches (7 out of 22 branches) indicated higher staff turn-over, greater than 12%. Sixteen out of 22 branch offices implement performance-based incentive. Additionally, there is seen that gaps there are gaps in terms of computer and driving skill.

Branch facility

Some branches have inadequate office furniture 8/22 of the branch offices replied that it is not adequate. Likewise, indicated inadequacy of motorbikes. Except in 9 branches, where a motorbike is for a staff, in the other branches a motorbike is assigned to two or more staff.

Sign of growth

Majority of the branch offices are growing over the last two years. Data collected indicates positive portfolio growth. And maintaining reasonable portfolio quality as measured by portfolio at risk. Except 6 branches, portfolio at risk in all the branches is below 7.5% (30 days). And 10 of them are performing in a better way (PAR for 30 days is less than 5%). 12 branch offices have loan repayment rate of more than 95%. On the other hand, some MFI branch offices have very low performance where they need to give emphasis.

In terms of business plan for the next three years- majority of the branch offices do have business plan and targets: client, loan disbursement and saving value. Majority of OCSSCO and Metemamen branch offices have work experience with either MCS or HCS and have experience of loan guarantee fund utilization. Responses of the MFIs' branch offices, work experience with partners:

	With MCS	With HCS	
OCSSCO branch offices	• A/Negele • Dodota • Sire • Boset • Shalla	• Babile	
Metemamen MFI offices	• A/negele • Zeway Dugda • ATJK • Shalla • Sire		

SECTION 2: RUSACCOs and RUSACCO Unions

a. SACCO Unions

Five SACCO unions which are operating in the Activities operation areas of MCS and HCS were considered in the assessment: Duro Shala in West Arsi Zone, Biftu Batu and Awash Unions from East Shewa Zone, Kalata union from Arsi Zone , and Burka Gudina of Babile woreda. Of these, Duro Shall and Awash unions have the highest membership.

MCS					HCS				
Union Name	Year established	LRO/DFSA Woreda covers	# of RuSACCOs	# of Members	Union Name	DFSA Woreda covers	Year established	3 of RuSACCOs	# of Members
Biftu Batu	2008	• ATJK	30	5779 (F=5667)	Burka Gudina	Babile	2014	19	2790 (F=2761)
Duro Shalla	2009	• A/Negele • Shalla • Siraro • Heben Arsi	150	13523 (F=8758)					
Kalata	2005	• Sire • Dodota	26	6206 (F=4125)					
Awash	2005	• Boset	108	12225 (F=6220)					

Organizational Knowledge, Management and Leadership

Leadership of the unions have vision, mission and operational plan with some (Burka Gudina and Biftu Batu unions) lacking strategic plan. Except the two unions, all unions have accountants to maintain financial recordings, maintaining appropriate financial recordings and audited during the last three years.

Membership

The analysis result showed that the number of RuSACCOs and kebeles served per union ranges from 30 to150. Whereas Duro Shalla and Awash unions have the highest number 150 and 108 respectively. The total number of members of the unions ranges from 2,790 to 13,523 where the highest is in Duro Shalla. Almost all unions give priority for women membership and the membership is increasing over the last three years. They also serving RuSACCOs with PSNP beneficiaries.   Majority of the leadership members of the unions can read and write.

Financial service performance (saving, borrowing, lending, loan and saving features)

Saving

The unions have different level of saving balance that ranges from 921,000 to 22 million birr. Cooperative bank of Oromia and Commercial bank of Ethiopia are their partners to deposit unions' savings. As per the assessment result the unions have worked on awareness creation activities to mobilize savings. The average saving per RuSACCO deposited at unions ranges from 5,000 to 50,000 birr.

Borrowing

Internal saving is the source of loanable fund for all the unions to lend for their member RuSACCOs. On top of this, since the amount from internal saving may not satisfy members' request, unions also borrowed from external sources (Development Bank of Ethiopia and Cooperative Bank of Oromia). Physical collateral is not required, except support letter from government to access loan from external sources. Amount of loan a union can access is also linked with the amount of saving the union deposits in the lender account and required to submit business plan. Currently, except Duro Shalla and Burka Gudina unions have outstanding loan from the institutions, borrowed within the range of interest rate from 6 to 16.5% on declining basis and paying loans on time except one of the unions. To date, no union has accessed loan from Microfinance Institutions.

Lending and loan features

Except Kalata union, the rest were not able to provide loan to their RuSACCOs in the last three years. Lack of loanable fund and delayed repayment from RuSACCOs were the reasons mentioned by the respondents. The amount of loan disbursed in the fiscal year 2010 EC by the unions, ranges from 76,000 to 49 million for 2 to 70-member RuSACCOs. And major proportion of these disbursement is outstanding. Member RuSACCOs are repaying their loan, except few.

Fattening, agricultural input purchase, small ruminant rearing (goat and sheep, and petty trade) are the major activities that loans are provided for. Except Awash union, the rest of the unions require 6 months saving for a new RuSACCO to access loan. However, Awash union requires only 3 months. Unions are providing to a RuSACCO, on average, 26,000 to 6 million and for 6-36 months and charging interest rate within the range of 7.55 to 15%. Unions provide some kind of support to their community. For instance, Kalata, DuoShalla and Awash support children on school fees

Physical and financial structure and staffing

The total asset of all unions ranges from 782,000 to 58 million and all are growing except one union. All the unions have no non-financial investment like investment in supermarkets, schools, etc. They have offices, adequate office furniture and supplies except Burka Gudina union. They also have adequate number of staffs assigned except Burka Gudina and Awash unions.

Stakeholders support

Government is supporting these unions through auditing services and trainings (financial management/education, microinsurance, record keeping, credit product development, loan management/repayment and member mobilization). Currently, the unions and their member RuSACCOs are accessing capacity building supports from government, except Biftu Batu. In addition, they were benefitted from the HABP program and MCS. They supported the unions through organizing training on financial education, software and material support (motorbike, seed money, office supplies).

b. RuSACCOs

Overall, 67 RuSACCOs: 35 in MCS and 32 in HCS areas, were included in the assessment.

	HCS					MCS								
Woreda name	Melka Belo	Deder	Midega Tola	Diredawa	Babile	Shalla	Zeway Dugda	ATJK	Siraro	Heben Arsi	A/Negele	Boset	Sire	Dodota
# of RuSACCCOs assessed	6	7	5	8	6	5	6	8	6	1	3	1	3	2
Age range	9-6	26-2	9-1	2-1	11-9	8-3	13-8	14 - 5	11- 4	6	9-6	10	14- 4	9
Total members	3184	1384	368	2041	887	743	546	895	1053	63	310	185	676	913
Membership ranges	319 - 653	136 - 260	20-73	117 - 563	102 - 185	67-231	59 - 151	46 - 307	44 - 264	63	91-110	185	110-421	91-822
% of Women	41	30	58	56	99	74	74	100	71	97	68	54	65	94
%PSNP members	53	91	38	38	33	41	5	27	43	3	80	11	31	1
% Youth	24	14	25	19	21	20	6	7	11	20	35	11	8	1

Organizational Knowledge, Management and Leadership

Leadership of almost all (97%) of assessed RuSACCOs understand their vision. mission and goals of RuSACCOs. They have also adequate number of committee and each RuSACCOs has its own by-law that is respected by majority of its members. About half (48%) of the RuSACCOs' do not have strategic plan while 80% of the RuSACCCOs assessed have operational plan. One of the main reasons mentioned by the respondents is lack of capacity. They also have bookkeeper, maintain proper recording, and audited in the last two years. However, it was observed that some bookkeepers have limited capacity in managing records. Secretary or a committee member keeps records in those RuSACCOs that do not have bookkeeper. Some RuSACCOs reported that half of their members are literate, while few members of the majority RuSACCOs can read and write.

Membership

Overall, 67 RuSACCOs: 35 in MCS and 32 in HCS areas, were included in the assessment. A total of 18,158 community members were organized under the RuSACCOs as at July 2010 Ethiopian Calendar (EC) with average membership ranging from 63 to 531 per RuSACCO.

All RuSACCOs have members who are PSNP beneficiaries. Majority of them have youth as membership and allows two or more members from a household to participate. In some RuSACCOs, in Arsi Negele, Midega Tola and Melka Belo, youth constitutes 24 - 35% of the membership. There are RuSACCOs where female constitutes 100%, and most of them have more than 70% of the total members are female. As per the assessment result most of RuSACCOs showed that their membership had increased during the last two years. while among those RuSACCOs reported decreasing trend (20), dropout is significant in 11 RuSACCOs).

Financial service performance (saving, borrowing, lending, loan and saving features)

	HCS					MCS								
Woreda Name	Melka Belo	Deder	Midega Tola	Direda wa	Babile	Shalla	Zeway Dugda	ATJK	Siraro	Heben Arsi	A/Negel e	Boset	Sire	Dodota
Average saving	64,462.00	29,625.00	90,000.00	36,366.00	84,643.00	106,154.00	152,279.00	104,000.00	153,000.00	65,164.00	154,000.00	201,000.00	198,700.00	358,700.00
Average RuSACCOS debt (Borrowing)	0	0	0	0	41,000	168,716	0	243,000	65,500	0	80,000	0	519,122	353,000
Average Outstanding loan (Lending)	615,933	36,667	99,160	9000	781,000	172,000	177,522	155,000	72,173	33,000	76,000	155,600	509,000	1,823,408
Interest rate on lending (Range)	10%	10%	5-10%	6-20%	7.5	11-18%	8-10%	10-18%	10-25%	15%	10-15%	12%	15%	16%
Number of RuSACCOs with loan	6	5	5	2	1	6	6	6	3	1	3	1	3	2
Members with outstanding loan	903	170	75	15	317	188	307	823	302	50	124	60	626	744

Average Asset	800,000	51,628	67,069	38,178	602,651	130,614	292,780	164,000	424,000	159,744,	304,000	187,0001	1,3000,000	1,902,306

Savings
Similar to unions, RuSACCO have different level of saving balance that ranges from small as Birr14,780 to high as Birr 538,562 with average balance of Birr 129,872. The average monthly saving per individual member varied from 10 to 200 birr and most members regularly deposit their saving (70% at HCS area and 80% in MCS are) in the form of compulsory savings and voluntary. Unions and Commercial Bank of Ethiopia are RuSACCOs partners to deposit their saving. The reasons for those SACCOs whose members are not saving regularly includes: seasonality of income, lack capacity and not respecting RuSACCOs by-law. Most RuSACCOs uses regular saving meetings to enhance awareness of members.

Borrowing
The most common sources for loanable funds for RuSACCOs are: internal savings, respective union and donations. Almost all RuSACCOs considered in the assessment use their own source (members saving) as source of credit to members. However, there are RuSACCOs using loans from unions and revolving fund as additional source of credit for their members. The RuSACCOs operating in Babile, ATJK, Siraro, Heben Arsi, Sire and Dodota woredas mentioned that unions loan is used as an additional source of loan. While 16 (24 %) of RuSACCOs received revolving fund that ranges from 10,000 to 707,000 birr. Most of these RuSACCOs (69%) are operating in HCS areas. None of the RuSACCOs mentioned that MFI nor banks are used as source of loan to their members.

Most of RuSACCOs in MCS woredas and in Babile woreda (HCS) had outstanding loan from unions that ranges from 41,000 to 519,122 birr at a borrowing rate of 9% to 18%. Majority of these RuSACCOs are repaying the loans to unions on time. However, some RuSACCOs are not paying due to members delay repaying loans on time. Except RuSACCOs in ATJK Dodota and Sire woredas, majority of the RuSACCOs do not reserve loan loss provisions or collect credit life insurances. Nearly, one third (36%) of RuSACCOs have experience of preparing a business plan and borrowing from unions while majority of the RuSACCOs do not have such experience.

Lending
Half (50 %) of the RuSACCOs provided loans to all their members in the last three years. The rest provided to some of their members or not at all due to lack of loanable fund, uncollected loans and high amount of interest rate. In the fiscal year 2010 (Ethiopian calendar) 68% of RuSACCOs disbursed a total loan amounting of 16,135,658 birr for 4371 members with minimum and maximum loan size that ranges from 1,000 to 8,000 birr per member at lending rate of 5% to 20% flat interest rate where majority of RuSAACOs charged 10% and above.

Loans in majority of the woredas are for short term (3-12 months) except for RuSACCOs in Babile woreda who provided loan for a term of 24 months. Currently the RuSACCOs have an average outstanding loan ranging from 9000 to 1,823,408 birr per woreda. Majority (70%) of RuSACCOs are paying loans on time. Yet, seasonality of income, market fluctuation, lack of follow up and support from local (kebele) administration and lack of members commitment to repay loans are the major factor for members defaulted loans.

RuSACCO members uses loan to engage on off-farm and on-farm activities: Animal fattening, purchase of agricultural inputs, petty trading, grain trading, small ruminants rearing and poultry. Majorities of RuSACCOs required members to submit a business plan to get loan. Group guarantee was required beyond the saving amount and there was no credit life insurance paid for loans except for RuSACCOs in Sire and Dodota woedas. RuSACCOs do not have interest-free loan and saving products, except few RuSACCOs in Diredawa, Midega Tola, Shalla and Zeway Dugada woredas and there are requests in few kebeles for the same product

Shortage of loanable fund is the major limiting factor for all RuSACCOs. Hence, RuSACCOs are planning to increase internal savings and looking for external finances to address members loan demand. Significant proportion (94 %) of RuSACCOs required a new member to save for 6 months to access to loan. The rest required 3 and 12-month savings and can access 2-4 folds of their saving. None of the RuSACCOS are currently providing community support.

Liquidity Issues for RuSACCOs arise from: infrequent savings by members, poor repayment of loans, shortage of loan fund, weak resource mobilization capacity.

Physical, financial structure and staffing

Assets possession of RuSACCOs include income from different sources such as share, savings, revolving funds and other incomes. Average assets per woreda ranges from 38,178 to 1.9 million. Some of the RuSACCOs have significant asset balance (more than half a million) where sizable part of it constituted from loan and revolving grant funds. The smallest asset holding RuSACCOs are operating in HCS area (Dire Dawa) while the largest asset holding RuSACCOs are operating in MCS area (Sire and Dodota woredas). A share costs between 50-200 birr and the total asset has been increasing for majorities of the SACCOs which indicates positive income (profitable) of the RuSACCOs. None of the RuSACCOs have investments in non-financial activities

Stakeholders support

Woreda Cooperatives Promotion Office is closely supporting RuSACCOs on record keeping, auditing, technical trainings, provision of inputs for office construction and support on loan repayment activities

Local administration (kebele) supported RuSACCOs through provision of land for office construction, community mobilization and support on loan repayments. Moreover, some of RuSACCOs received trainings, technical support, material and financial support from different organizations such as MCS, ATA in the last five years.

Capacity and work experience with different organizations/NGOs

Except some committees and Bookkeepers of some RuSACCOs, majorities of the RuSACCOs management reported that they did not receive any type of training.

Trainings need mentioned by the RuSACCOs are principles of cooperatives, loan management, product development and marketing, promotion skills, cooperative management and leadership, business skill, credit risk management auditing and preparing balance sheet statement are areas of training recommended by RuSACCOs.

Apart from financial service, none of the RuSACCOs provided non-financial services to its members.

Some of the RuSACCOs operating in MCS areas have prior work experience with different NGOs (Catholic, MCS, OSHO, child fund, Rift Valley Women and Children Development, Self Help Africa)

Physical Infrastructure and Support received

Most RuSACCOs have office space but most are old and inadequate. So far, some RuSACCOs have reported that they received physical office equipment and stationary, technical support in form of trainings and land to construct office from Kebele leaders

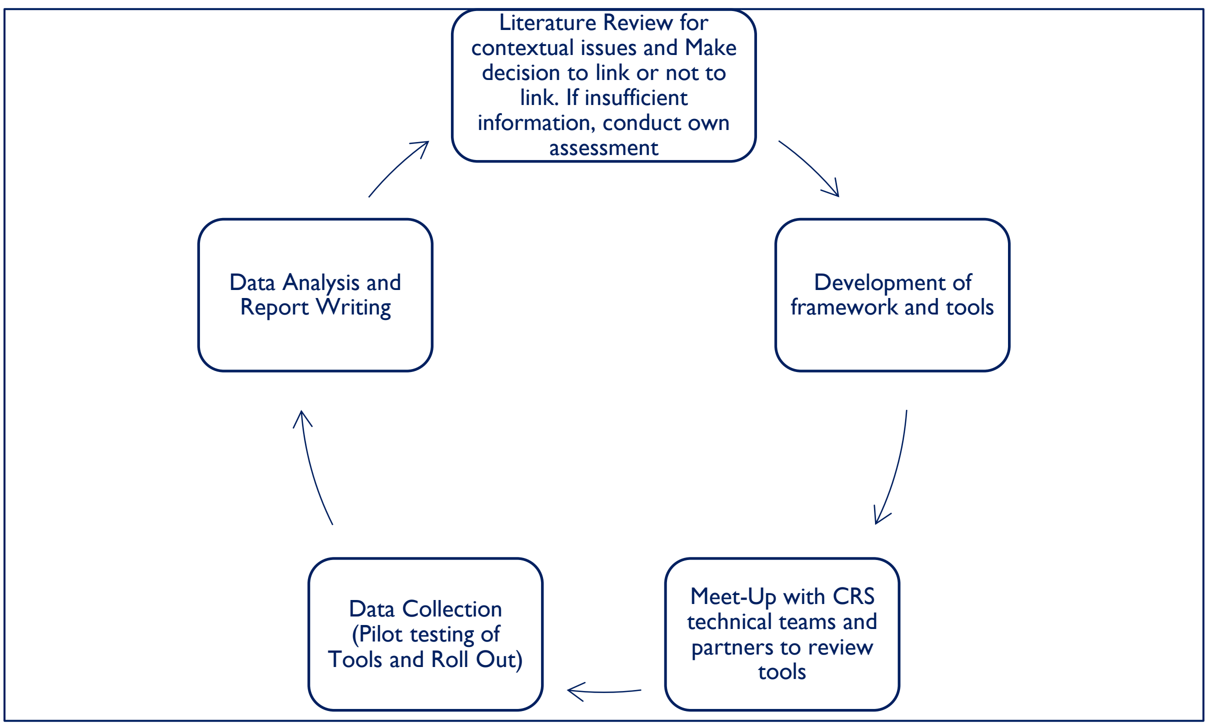
Annex 2: CRS Ethiopia Financial Linkages Guidelines

Introduction

CRS Ethiopia is integrating financial services interventions in its Development Food Security Activity (DFSA) and Livelihoods Resilience of Oromia (LRO) projects. Financial Services in the context of these projects means opening up new savings and internal lending communities (SILCs), layering activities on existing savings groups (SILCs, Village Savings and Loan Associations – VSLAs, or Village Economic and Social Associations – VESAs), financial education training, and linkages to financial services providers for value-chain financing or other products and services that benefit project participants. In the context of the country program, there is Cash Transfers programming that is taking place within the Joint Emergency Operation Plan (JEOP) project that uses mobile money platforms hosted by financial services partners that are in some cases working with development programs (DFSA and LRO).

These guidelines provide the process map, the tools and work plan that prepares project teams in crafting strategies for successful linkages and collaboration among projects and partners with beneficiary interests in mind.

The Linkages Process



LITERATUE REVIEW

The following literature was reviewed to provide the background and framework for conducting in-house capacity assessment of financial services providers in the project area:

1. Capacity Gap Assessment and Mapping of Financial Institutions under Food Security Program – Household Asset Building Program (HABP) Areas. Ministry of Trade – Federal Cooperative Agency, 2012.

2. CRS Tanzania *Soya Ni Pesa* Financial Linkages Guidelines
3. A Practitioner's Guide to Facilitate Linkage between Village Savings and Loans Associations and Financial Institutions. Access Africa Technical Document Series. CARE ACCESS AFRICA.

The literature review is not exhaustive[2] but sets the ground for understanding best practices and past experiences in financial linkages. Most of the organizational capacity assessments are conducted in order to identify capacity gaps of FSP and strengthen them in preparation to expand their outreach in areas where their sponsors are interesting to serve. CARE International has done substantial work in linking VSLAs to financial institutions in its ACCESS AFRICA program. CRS has done significant work in linking SILC groups to financial services providers in most of its country programs. However, CRS is yet to develop agency guidelines to provide operational and technical direction to country programs and partners in steering successful linkages between its microfinance programs and financial services providers. This therefore is the first step towards shaping up guidelines for financial linkages for country programs and benefits from literature in the industry on the same subject.

LINKAGE PREPARENESS SAVINGS GROUP ASSESSMENT FRAMEWORK

Group and Member Level Information

As part of debt management, it is important for CRS microfinance staff to understand the group and its membership in regard to areas that are relevant for successful linkages. This will ensure project staff done initiate linkages that lead to members of groups getting into debt that depletes their savings and reduces their resilience to shocks. There are many different aspects to understand both groups and members. It is helpful to distinguish these categories by how the data will be used. The following are four categories for grouping savings groups and member data to understand potential impact of linkages:

1. Group Architecture
2. Financial Performance of Groups (and support organizations)
3. Outreach Data on Groups
4. Social Performance (Group or Member Level)

The following chart shows more detail about the differences between the categories as well as how the data is typically used.

Category of Data	***Examples of data observed***	***Typical use of data***
Group Architecture	Group norms (constitution); group composition (gender, age etc.); nature of distribution	Can be helpful market research to design services/products or improve upon savings groups

[2] Agencies supporting DFSAs have done some studies on financial linkages and so it is important to consider such studies in your literature review. Other critical documents are reports from Value Chain Finance Assessments.

Financial performance of groups	Return on assets at group level; % of members with loans outstanding; loan losses, average loan amounts and any relevant information from SAVIX)	Support groups in making informed decisions; understand factors that affect quality and survival of groups, make CRS make informed decision on linkage-readiness.
Outreach	Number of members reached; number of groups reached; socio-economic profile of members (gender, age, economic activities)	Determine the nature of group outreach and whether funds have been well-used against alternatives; understand if the area provides critical mass for MFI operations
Social Performance	Understanding the group's vision, mission or the reason they exist. Any special focus on youth, disabled persons etc.	Important to understand the foundation of the group, the reason it exists and if members appreciate that the group is a vehicle to help them reach their personal goals.

a. Group Architecture

The following are some useful questions to ask to help you understand the group structure and how it operates as a financial or investment vehicle:

a) *Indigenous Groups*. How does the current group structure and methodology compare to the traditional microfinance model of group behavior/expectations where no external influences are involved? What anticipated changes will occur before and after being linked?

b) *Group composition*. Who are the members? Are they homogenous or heterogeneous? How many are in the group, on average? How do the members determine who gets in? What happens in the event that a member wants to leave the group early? Focus on the constitution and how this can adapt member exit in the context of external relationships.

c) *Role of Group and Use of Funds*. What is the main purpose of the group? What are they trying to achieve? How have they used their profits the last few times? How is profit distribution handled? <u>Group's vision and Personal Objectives.</u>

d) *Cold/Hot Money*. What are the various sources of funds? In %? What % of sources of funds are external, if any? What % of this money is subsidy? What % is external capital? What are the obligations and requirements of external money? Can the group handle these relationships? Can the group handle additional relationships? What are the various uses of external funds and how is this distributed within the groups?

e) *Group governance*. Is there a leader or a leadership team? What are their roles? How are they chosen? Is there rotation? How is transparency and accountability ensured? How does a general member know the situation of the finances?

f) *Group norms.* Is there a formal constitution (oral or written)? What are the rules for entry, savings payments, loan distribution, late payment, profit distribution? (if any?) What types of sanctions or controls does the group use if norms are not followed? Can the constitution be used as-is in the context of external linkages?

g) *Group recordkeeping.* Is it a written or an oral bookkeeping system? How do they keep track? How does the group know that it is doing well or not? How does the group ensure transparency and accountability of transactions for illiterate/innumerate members and how is this likely to change in the context of linkages to external financial services provider?

h) *External Relationships.* What types of external (non-financial) relationship does the group have? To what extent is there an exit strategy for the external bodies? How does the group value the external relationship?

b. Outreach

Outreach relates to the number of members benefiting from the services by which the groups were formed. It may also relate to which members are being reached and which are not especially in the context of mixed groups – in terms of gender/age/target beneficiary.

There are six aspects to consider when talking about outreach: **cost; length; breadth; depth; scope; worth**. All these aspects require member input as part of organizational learning on effects of linkages.

Below are sample questions:

a. **Cost-** What are the costs of accessing these financial services for members? Consider both financial and opportunity costs (transactional). What factors affect cost (e.g. distance, gender, economic activity etc)?
b. **Length-** What is the sustainability of this program? Consider both the financial sustainability and the ability of the program to self-generate through replication. Why are some groups doing well? Why are some groups having difficulties? Why have some groups dissolved? Is there a problem with the safety of savings in the groups? How are members using their profits?

c. **Breadth-** How many members overall is this program reaching? What factors affect breadth? Why are groups spreading well in some areas and not others? Why are certain types of groups spreading well?

d. **Depth-** How far down (poor, gender, rural, other equity considerations) is the program reaching? What factors affect depth? How can depth be improved in the program? What is the impact of this program on groups or group members? *This seems to be already defined since we are working with PSNP beneficiaries but what about LRO groups?*

e. **Scope-** How does the range of services provided compare to other products and services from FSPs? What factors affect scope? Is there a demand for external linkages for larger loans or other services?

f. **Worth** – What is of value to members in terms of particular products and services? For example, what do members value about savings? Financial and non-financial services? What types of financial or other literacies do members seek? What factors are important to them in products? In which types of decisions should members be involved? What are the key governance challenges facing groups? Are members really able to hold their leaders accountable? Do members view ownership the same way that staff view ownership?

Focus Group Discussions with Members

Institutional capacity assessment highlights the types of data that we might collect on institutions to understand areas of strength that will serve the goals on the linkage. But it is important to go beyond institutions and focus on the demand-side as the core business of the agency. The focus is on SILC members and groups. This section is going to review one of the more common methods used for understanding or communicating with members to understand their needs so we manage effective linkages.

In order to get feedback from groups and members, field staff go to the communities and talk with the groups. More traditional forms of market research such as Key Informant Interviews are obviously not practical in this context.

There are many methods for seeking feedback from groups. Focus groups are an efficient way to meet with several members (usually between 7 and 10) at once. Depending on the research question(s) being asked, it may be possible to use existing groups as the focus group.

A focus group is an appropriate method to have an open discussion about a topic. Given that there are different members with potentially different responses to a question, it is not useful to use a focus group if member-level information is being sought. Group level information can, however, be explored through focus groups.

Step 1: Find the right question

Usually, the most difficult part of field research is ensuring that you have the right question in the first place. What is it that you are trying to understand from members? The question should be clear, easy to translate, and relevant to ongoing operations. Ask yourself how the results and responses to these questions may translate into operational change and improvements.

The question should be a manageable scope. Too large a question may not be feasible to ask with existing resources: what is the intra-household impact on savings of every member of the program? Too small a question may not yield broad enough results to be useful for operations. i.e. what is this group doing with its profits?

Step 2: Determine which groups/members need to be asked

Once the question is determined, you will need to determine your sampling methodology. It is unlikely that you will have the time and resources to meet with all members and all groups. Which groups, then, should be met? The groups should make up a representative sample of all groups in the organization. The key is to determine which factors of representation matter. Some common factors of representation include: gender composition; location/how rural they are; age of group; type of agent who formed the group. Once you have decided which factors matter in your context, based on the number of overall members you can determine your sample size.

You can use this website to get a recommended sample size:
http://www.raosoft.com/samplesize.html
Click to open it in a new window then type in the total number of members as the total population.
For example, if you have 4,000 groups and you type this into the population size, it will give you a sample size of 351 groups that should be interviewed. This gives you a 5% margin of error and a 90% confidence level. Sample size can be calculated either for groups or members depending on what makes sense for your organization and research question.

See Annex 3 on focus group discussion

AN OVERVIEW OF ORGANIZATIONAL CAPACITY ASSESSMENT TOOL (OCAT) FOR FINANCIAL SERVICES PARTNERS

This tool is broken into nine categories, each with a number of criteria that must be substantially met for the organization to consider itself ready to initiate linkages with project beneficiaries.

Each category has a number of criteria that describe what capacity, systems or processes should be in place and routinely used well for effective financial linkages with project beneficiaries. *See **Annex 5** for a detailed OCAT and **Annex 2** for a light rapid assessment version.*

GOVERNANCE STRUCTURE

1. **Board members:** The board members have relevant experience, qualifications and leadership skills in areas that will serve the linkages initiative and demonstrate capacity to support.
2. **Frequency of meetings:** How frequent does the board and/or senior management team meet? What is the agenda in general that the SMT discusses during the meetings? who attends the meeting?
3. **Policy involvement:** Is the board involved in policy development?
4. **Social Focus:** Organization has a clear vision, mission and core values. The strategic and business plan of the organization shows readiness to commit resources in developing products and services that meet the needs of this market. This includes committing staff and structures to develop and manage financial linkages with household in Livelihood Groups (LGs).
   The top management team appreciates the organizations role and challenges in providing financial services to very low-income households and supports initiatives by other stakeholders in meeting these goals. The management team actively or is willing to invest time and resources to build strong systems that support extension of financial services to very low-income groups (e.g. PSNP beneficiaries in Livelihood Groups).

ORGANIZATIONAL AND MANAGEMENT STRUCTURE

1. **Organizational Chart:** The organizational structure and national and branch level is detailed and covers all relevant functions including but not limited to: Board, CEO, HR function, Operations function, Finance function and MIS functions.
2. **Policy Framework:** Organization has policies that support each critical function of the organization and can support anticipated relationships.

HUMAN RESOURCES

1. **Staffing:** The organization shows sufficient staffing capacity in relation to its portfolio plans. Staff have strong job descriptions that relate to the goals and mission of the organizations and can support anticipated partnerships. Required level of skills and technical capacity exist to support the mission of the organization. Performance incentives.
2. **HR Policies:** Existence of human resources policies, guidelines and tools that support the vision, mission and growth plans of the organizations and can accommodate new structures that support anticipated partnerships. System encourages recruitment and retention of staff with high competencies and can effectively meet staffing needs in anticipated linkage relationships.

3. **Career Plan:** Staff learning and development plans allows for new knowledge and skills in line with anticipated linkage relationships. Organization has clear career path for staff and supports organizational learning through participation in external learning and other courses.

FINANCIAL MANAGEMENT

1. **Financial systems and policies** are in line with CRS Finance Policies and donor guidelines on loanable fund management and/or credit guarantee reporting mechanisms.
2. **Operations** are adapted to suit desired controls appropriate to the amount of loanable fund/credit, the degree of risk and are in line with microfinance best practices.
3. **Financial Reporting requirements** are in line with anticipated reporting requirements arising out of the linkage partnerships. Financial reporting followings microfinance standard reporting and covers Profitability (P), Efficiency (E) and Asset Quality as per industry reporting standards.
4. **Financial management practices** support the business plan and in line with potential growth plans of the institution including supporting new relationships, structures and management of external resources.

OUTREACH INDICATORS

1. **Branch Network:** Organization has sufficient branch network and structures that supports its mission to deepen and broaden outreach of services to low and very low-income households. Performance of each branch is assessed individual in terms of operation and financial self-sufficiency. Assessment of number of kebeles served in a particular region, distance between clients and the nearest outlet, number of active borrowers per branch in relation to optimal capacity demonstrates that the organization can support new linkage relationships.
2. **Innovations in extending financial services:** Where there are no physical branches, the institution uses mobile banking (vehicle) options, satellite offices, agency banking, or mobile money platforms to extend services to hard-to-reach clients in marginalized rural areas.

PERFORMANCE INDICATORS

1. **Financial and Operational Self-Sufficiency:** The organization's portfolio performance indicators show industry best practices on critical areas such as Repayment Rates, Arrears Rates, Portfolio at Risk (PAR), Return on Assets etc.
2. **Loan Portfolio:**
   a. Loan products (terms and conditions);
   b. Loan performance;
   c. Portfolio at risk (> 1 day (if available), > 30 days, > 60 days, >90 days etc.);
   d. Portfolio growth;
   e. Challenges and opportunities; and
   f. CRS loan guarantee (purpose, alternative, suggestions for future).

PERSPECTIVES OF LONG-TERM PARTNERSHIP WITH CRS

1. Interest in long-term partnership;
2. Focus;
3. Potential expectations; and
4. Terms and Conditions.

SOCIAL PERFORMANCE INDICATORS

1. Review of the Mission Statement and Vision to ensure it is client-centric and clearly identifies the social mission.
2. Evidence of understanding and application of the Universal Standards for Social Performance Management (USSPM)
3. Evidence of board, senior management and staff training on USSPM
4. Evidence of a social audit not more than 2 years old or a recent self-assessment using the SPI4 tool.

EXTERNAL RELATIONS

1. Demonstrates capacity to prioritize new relationships that fit within the mission of the agency.
2. Relationships with local organizations, financial and non-financial service providers, donors and other partners exist and can benefit anticipated partnership

Annex 3: MFIs Assessment questionnaire (for head office)

The tool is derived from different sources those engaged on assessing financial service providers for various objectives. It focuses on criteria for; management and organizational structure, outreach, operations, human resources, growth, experience and reporting and documentations.

The objective is to assess capacity of and engage with potential MFIs in reaching and creating financial linkage to target beneficiaries of the program- Feed the Future Ethiopia Livelihoods for Resilience-Oromia (LRO).

The tools, (Head office and branch level) are in the form of a checklist which, when completed will give a total score out of 100 for the specified criteria. Average of similar indicators under head office and branch checklist will be used. Branch level assessment will be done, although the first portion (Management and Organizational Structure) is common to branches in an MFI. In some instances, figures for indicators under 'Signs of Growth' may not be available at branch level, hence, MFI figure will be considered in such cases.

Name of the Institution: ____________________

Date: _________________________

SN	Parameter/Sub-Parameter	Indicator/s	Maximum Points	Awarded Points	Remark
1.	**Management and Organizational Structure *(filled at Head Office)*** a. Management experience, ability, vision, and leadership to lead the MFI to achieve its mission	• Industry experience of key senior managers,	1		
	b. Organizational structure to support effective management oversight	• If all necessary departments, particularly Operation, have personnel (managers) (HQ, Area, Branch)	1		
	c. Institutional associations with other development agencies,	• If it has experience working with GOs and NGOs and other	1		
	d. Management's integrity and commitment to work with partners	• Previous engagement feedback (existing), and any experience in the past (for new)	2		
	e. Management's vigilance and readiness to resolve issues arose partnership	• Previous engagement feedback (existing), and any experience in the past (for new)	2		
		Sub Total			
2.	**Outreach *(branch specific)***				

2.1.	a. What other infrastructure is used to reach out to clients?	• If it has sites at kebele or satellite office where services (loan disbursement and repayment, savings collection and withdrawal, etc) take place =2 • If only part of the services is provided at the sites/clusters=1 • If no outlet, service site =0	2		
	b. What are other infrastructures than stated under 'b' used to reach and provide services to clients? • 1. Mobile Money • 2. Agency banking • 3. Mobile banking	• All = 2 • Two or one of the three =1 • None=0	2		
2.2.	Number of borrowers (active)	• Total number = ____________ • % of borrowers per total population of the operation woreda[3] ○ >2% =3, 1-2% =2, ≤1% =1	3		
2.3.	Total outstanding Loan Average Loan portfolio balance *(weak measures)*	=_____________________________ =_____________________________			
2.4.	Number of savers (both voluntary and compulsory)	• Above the number of borrowers = 2 • Less or equals to the number of borrowers=1	2		
2.5.	Saving balance	______________________________			
2.6.	Commitment to Pro-poor/inclusive approach	• Focus on empowering women (>50% of the borrowers) =1 • Integrated approach (eg with adult literacy, health programs, etc) =1 • Focus on, services related to, youth (15-29 year) =1 • Product and services specific to Women: ___________________	3		

[3] Key facts: Microfinance in Ethiopia, mftransparency.org (2011), country average = 2% and average Portfolio Balance = USD 140

		• Product and services specific to Youth: ____________________			
3.	**Operations**				
3.1.	How long has the MFI operated in the country?	• Over 5 years =2, 2-5 years =1, <2 years =0	2		
3.2.	Know Your Customer (KYC) procedures and requirements	• If Branch uses KYC documents like ID and others and Branch Manager/supervisor reviews and approves the group formation=2 • If only KYC documentation by Credit officer and no review by branch manager = 1 • Otherwise = 0	2		
3.3.	Range of Products and Services offered by the MFI/branch	• If it has full package of loan products (rural on-farm, off-farm, MSE Loans and Sharia Compliant products), Savings and Credit Life Insurance =2 • If it has partial package = 1 • Percentage of Loan Portfolio for Off-Farm activities: ______	2		
3.4.	Work/Service experience with saving groups	• If it has with VSLAs, SILC, SHGs, etc	1		
3.5.	Lending methodology and Collateral requirement	☐ Group ☐ Individual ☐ other_____________ • Collateral requirement for group, if any, ______________________			
3.6.	Interest Rates and other fees	• Range of Interest Rate from ________to ________ • Application fee ________________ • Insurance _________________	2		
3.7.	Loan term and Repayment methodology for its different products and services	• Range from _______ to _____months • Repayment method (Balloon, Installment etc.)	2		

3.8.	Loan Size for its different products and services for first cycle borrowers	• Range from _______ to _____birr	1		
3.9.	Systems and Procedures in Credit and portfolio risk management	• Operation Policies and Manuals in place = 2 • Inadequate manual and amendments =1	2		
3.10.	Source of Loan fund	• If total saving/portfolio > 50%, = 1, • Diversification of Commercial borrowings (more than one source of borrowing) = 1	2		
3.11.	Liquidity Management	• Availability of cash flow for operations =1 • If the branch uses cash disbursement plan =1	2		
3.12.	Management Information System	• Fully computerized system (banking system) =2 • Adequate manual system = 1 • Inadequate manual system 0	2		
3.13.	Portfolio Risk management (how many days does it take a Branch manager to become aware of a missed loan payment? Rural loan)	• ≤ 5 days =2, 6-10 days =1, > 10 days =0	2		
3.14.	Provision of non-financial/promotional services (eg skills training, financial education, group management, bookkeeping training, BDS, etc)	• If there exist =2 • If not = 0	2		
		Sub-Total			
4.	**Human Resources and Branch Logistics and Facilities**				
4.1.		•			
4.2.	Loan Clients per staff	• >138 = 1	2		
	Loan Clients per Savings and Credit officer	• > 262 =1			
4.3.	Scope of upgradation of skill	• Staff sent to external trainings often =2 • staff only have internal trainings = 1 • no training to staff = 0	2		
4.4.	Staff turnover (in the last 6-12 months)	• <12% (Low) = 1, >12% (High) = 0	1		
4.5.	Is there Performance-linked incentives to staff and implemented?	• Yes = 1 • No =0	1		

4.6.	Adequacy of Office furniture /chair, tables, computers,…/	• Adequate =1 • Not adequate = 0	1		
4.7.	Adequacy of Motorbikes for field staff (ratio of motorbike per credit officer)	• 0.5 = 1 • < 0.5 =0	1		
			Sub-Total		
5.	**Signs of Growth**				
5.1.	Profitability (P) and Efficiency (E)				
	a. Net income (recent previous year)	• +ve = 1, -ve =0	1		
	b. P-Operational Self Sufficiency (OSS)	• >135% =2, 100-135% = 1, <100% =0	2		
	c. P-Financial Self Sufficiency (FSS)	• >100% =2, 80-100% = 1, <80% =0	2		
	d. P-Return on Asset (ROA)	• >3% =2, 2-3% = 1, <3% =0	2		
	e. E-Operational Efficiency Ratio (OER)	• <20% =2, 20-30% = 1, >30% =0	2		
	f. E-Total Cost Ratio (TCR)	• <30% =2, 30-40% = 1, >40% =0	2		
	g. Growth in Loan Portfolio in the last two years	• End of 2009 EC:____________ birr • End of 2010 EC:____________ birr	2		
5.2.	Asset Quality				
	a. Portfolio Quality (>30 Days)	• <5% =2, 5-7.5% = 1, >7.5% =0	2		
	b. Repayment Rate (recent)	• ≥95% = <95% =			
	c. Asset Allocation (Loan Portfolio as % of total Asset)	• >80% =2, 60-80% = 1, <60% =0	2		
	d. Targets of Business Plan for the next three years,	• Plan Exists? Yes =1, No =0 • If yes (Year 1 figures) ○ # of Loan Clients = ________________ ○ Value of Disbursement =______________ ○ Value of Savings =__________________	1		
			Sub-Total		
6.	**Others**				

6.1.	Social Performance Management, if they have or willingness to implement	• If its mission and vision statement is client-centric and clearly identifies social mission = 1 • If it has Social Performance Management in place and implemented or willing to initiate = 1	2		
6.2.	Loan, other products to RuSACCOs and experience	If yes, what are the Loan Products for RuSACCOs: ________________ ___________________________ Does the MFI has experience on lending to RuSACCOs?	2		
6.3.	Branch Experience and work relation with CRS-MCS/HCS	• Yes, it has =1 • No =0	1		
6.4.	Experience in utilization of Loan Guarantee Fund in the past, if any	• Yes = No =	1		
	a. If Yes for question '6.5', (HQ): Feedback on best practices and challenges that help in designing the management of upcoming Loan Guarantee Fund: ____ ____ ____ ____ ______________________________				
6.5.	Interest (willingness) in long-term partnership and expectations ; ____ ____ ____ ________________________________ Willingness to serve PSNP beneficiaries/kebeles : ____ ____ ____				
6.6.	What are Key Challenges that the MFI/branch is facing? ____ ____ ____ ____ What are Key Opportunities for the MFI/branch operation? ____ ____				

	____ _______________		
	Sub-Total		
	Grand Total		

Annex 4: MFIs Assessment questionnaire (branch Offices)

The tool is derived from different sources those engaged on assessing financial service providers for various objectives. It focuses on criteria for; management and organizational structure, outreach, operations, human resources, growth, experience and reporting and documentations.

The objective is to assess capacity of and engage with potential MFIs in reaching and creating financial linkage to target beneficiaries of the program- Feed the Future Ethiopia Livelihoods for Resilience-Oromia (LRO).

The tools, (Head office and branch level) are in the form of a checklist which, when completed will give a total score out of 100 for the specified criteria. Average of similar indicators under head office and branch checklist will be used. Branch level assessment will be done, although the first portion (Management and Organizational Structure) is common to branches in an MFI. In some instances, figures for indicators under 'Signs of Growth' may not be available at branch level, hence, MFI figure will be considered in such cases.

SN	Parameter/Sub-Parameter	Indicator/s	Maximum Points	Awarded Points	Remark
3.	**Outreach *(branch specific)***				
1.1	Proximity of microfinance services to people c. How far is the branch office on average from the target client?	• ≤15km=2, 15-30 km=1; ≥30km = 0	2		
	d. What other infrastructure is used to reach out to clients?	• If it has sites at kebele or satellite office where services (loan disbursement and repayment, savings collection and withdrawal, etc) take place =2 • If only part of the services is provided at the sites/clusters=1 • If no outlet, service site =0	2		
	e. What are other infrastructures than stated under 'b' used to reach and provide services to clients? • 1. Mobile Money • 2. Agency banking • 3. Mobile banking	• All = 2 • Two or one of the three =1 • None=0	2		
1.2	Number of kebeles served, out of the woreda total	• More than 75% of the kebeles = 3 • 50-75% of the kebeles =2 • 25-50% of the kebeles =1 • <25% of the kebeles = 0	3		

1.3	Geographic distribution of client groups	• Targeting in remote rural areas =2 • Confined to nearby rural and town clients =1	2		
1.4	Number of borrowers (active)	• Total number = ____________ • Branch # of borrowers as a percentage of total population of the woreda[4] ○ >2% =3, 1-2% =2, ≤1% =1	3		
1.5	Total outstanding Loan of the branch Average Loan portfolio balance *(weak measures)*	=______________________________ =______________________________			
1.6	Number of savers (both voluntary and compulsory)	• Above the number of borrowers = 2 • Less or equals to the number of borrowers=1	2		
1.7	Saving balance	______________________________			
1.8	Targeting the poorest (operation in PSNP kebeles)	• More than 75% of the kebeles = 3 • 50-75% of the kebeles =2 • 25-50% of the kebeles =1 • <25% of the kebeles = 0	3		
1.9	Commitment to Pro-poor/inclusive approach	• Focus on empowering women (>50% of the borrowers) =1 • Integrated approach (eg with adult literacy, health programs, etc) =1 • Focus on, services related to, youth (15-29 year)=1 • Product and services specific to Women:____________________ • Product and services specific to Youth:____________________	3		
7.	**Operations**				
7.1.	How long has the MFI operated in the woreda/branch?	• Over 5 years =2, 2-5 years =1, <2 years =0	2		

[4] Key facts: Microfinance in Ethiopia, mftransparency.org (2011), country average = 2% and average Portfolio Balance = USD 140

7.2.	Know Your Customer (KYC) procedures and requirements	• If Branch uses KYC documents like ID and others and Branch Manager/supervisor reviews and approves the group formation=2 • If only KYC documentation by Credit officer and no review by branch manager = 1 • Otherwise = 0	2		
7.3.	Range of Products and Services offered by the MFI/branch	• If it has full package of loan products (rural on-farm, off-farm, MSE Loans and Sharia Compliant products), Savings and Credit Life Insurance =2 • If it has partial package = 1 • Percentage of Loan Portfolio for Off-Farm activities: ___________	2		
7.4.	Work/Service experience with saving groups	• If it has with VSLAs, SILC, SHGs, etc	1		
7.5.	Lending methodology and Collateral requirement	• ☐Group☐ ☐ Individual other_____________ • Collateral requirement for group, if any, _________			
7.6.	Interest Rates and other fees	• Range of Interest Rate from _______to _______ • Application fee _______________ • Insurance ________________	2		
7.7.	Loan term and Repayment methodology for its different products and services	• Range from ______ to ____months • Repayment method • Balloon, Installment	2		
7.8.	Loan Size for its different products and services for first cycle borrowers	• Range from ______ to ____birr	1		
7.9.	Systems and Procedures in Credit and portfolio risk management	• Operation Policies and Manuals in place = 2 • Inadequate manual and amendments =1	2		

7.10.	Source of Loan fund	• If total saving/portfolio > 50%, = 1, • Diversification of Commercial borrowings (more than one source of borrowing) = 1	2		
7.11.	Liquidity Management	• Availability of cash flow for operations =1 • If the branch uses cash disbursement plan =1	2		
7.12.	Management Information System	• Fully computerized system (banking system) =2 • Adequate manual system = 1 • Inadequate manual system 0	2		
7.13.	Portfolio Risk management (how many days does it take a Branch manager to become aware of a missed loan payment? Rural loan)	• $\leq$ 5 days =2, 6-10 days =1, > 10 days =0	2		
7.14.	Is the branch effectively measuring and monitoring portfolio at risk?	• Yes= 1 • No=0	1		
7.15.	Provision of non-financial/promotional services (eg skills training, financial education, group management, bookkeeping training, BDS, etc)	• If there exist =2 • If not = 0	2		
		Sub-Total			
8.	**Human Resources and Branch Logistics and Facilities**				
8.1.	Does the number and type of staff (Branch Manager or Supervisor or Senior Credit Officer, Accountant, Cashier and Saving and Credit officer) at the branch match levels of responsibilities and delegated authority?	• Yes =1 • No=0	1		
8.2.	Loan Clients per staff	• >138 = 1	2		
	Loan Clients per Savings and Credit officer	• > 262 =1			
8.3.	Are staff functions assigned properly?	• Yes = 1, No = 0			
8.4.	Knowledge of staff on microfinance operation (check with a Credit officer vs an operation process (eg. group formation process)	• Good =2, Moderate= 1, Low =0	2		
8.5.	Skill set of staff	• Do all staff have computer skill? =1	2		

		• Do all credit officers have motorbike driving skill? =1			
8.6.	Scope of upgradation of skill	• Staff sent to external trainings often =2 • staff only have internal trainings = 1 • no training to staff = 0	2		
8.7.	Attitude level of staff towards work (Does the branch have motivated staff to implement its mission?)	• High =2 • Moderate = 1 • Low =0	2		
8.8.	Staff turnover (in the last 6-12 months)	• <12% (Low) = 1, >12% (High) = 0	1		
8.9.	Is there Performance-linked incentives to staff and implemented?	• Yes = 1 • No =0	1		
8.10.	Adequacy of Office furniture /chair, tables, computers,…/	• Adequate =1 • Not adequate = 0	1		
8.11.	Adequacy of Motorbikes for field staff (ratio of motorbike per credit officer)	• 0.5 = 1 • < 0.5 =0	1		
			Sub-Total		
9.	**Signs of Growth**				
9.1.	Profitability (P) and Efficiency (E)				
	h. Net income (recent previous year)	• +ve = 1, -ve =0	1		
	i. Growth in Loan Portfolio in the last two years	• End of 2009 EC:____________ birr • End of 2010 EC:____________ birr	2		
9.2.	Asset Quality				
	e. Portfolio Quality (>30 Days)	• <5% =2, 5-7.5% = 1, >7.5% =0	2		
	f. Repayment Rate (recent)	• ≥95% = <95% =			
	g. Targets of Business Plan for the next three years,	• Plan Exists? Yes =1, No =0 • If yes (Year 1 figures) ○ # of Loan Clients = ________________ ○ Value of Disbursement =______________ ○ Value of Savings =___________________	1		

			Sub-Total		
10.	**Others**				
10.1.	Quality of Reporting and Documentation	• Good =1, Not good =0	1		
10.2.	Branch Experience and work relation with CRS-MCS/HCS	• Yes, it has =1 • No =0	1		
10.3.	Experience in utilization of Loan Guarantee Fund in the past, if any	• Yes = No =	1		
10.4.	a. What are Key Challenges that the MFI/branch is facing? ____________________ ____________________ ____________________ ____________ b. What are Key Opportunities for the MFI/branch operation? __________ ____________________ ____________________ ____________________ ____				
			Sub-Total		
			Grand Total		

Annex 5: RuSACCO and RuSACCO unions Capacity Assessment questionnaire

1. ***General***
    a. Name of the Union ________________________
    b. Number of Woredas where member RuSACCOs are operating _____ and name of the woredas ________
    c. Year of establishment ________________
2. **Organizational knowledge, Management and Leadership**
    a. Do Board and management of the Union know vision, mission, goals and values of the union? Yes No
    b. Does the board and management meet regularly? Yes No
    c. Does the Union have strategic Plan? Yes No
        - If No, what is/are the reason/s? _______________
    d. Does the Union have Operational Plan? Yes No
        - If No, what is/are the reason/s? _______________
    e. Does the Union maintain appropriate recording? Yes No
    f. Does Union have appropriate financial recording system in place (eg computer spreadsheet)? Yes No
    g. Is the Union audited in the last three years? Yes No
    h. Is there accountant? Yes No
        - If Yes, is the accountant capable enough to manage the recordings? Yes No
3. **Membership**
    a. Number of member RuSACCOs ________________
    b. Number of kebeles where member RuSACCOs are operating ______________________________
    c. Total Number of members: Total___________ Male______ Female_____
    d. Are there member RuSACCOs from PSNP kebeles? Yes No
    e. In a household with husband and wife, who will be given priority for registration as member in a RuSACCO? ____________
    f. Is the total number of members(individuals) increasing, no change or reducing in the last two years? ___
        - Is there significant members' dropout? Yes No.
    g. Literacy level of Board and management of the Union. How many of them read and write? All Half, Few, None of them
    h. Literacy level of management of member RuSACCOs. How many of them read and write? All Half, Few, None of them

4. **Savings**
   a. Total saving balance, current: ______________________
      - Saving amount at bank ___________ (name of the bank ________________)
      - Other __________________
   b. Average saving per RuSACCO _________________
   c. Is there minimum and maximum monthly saving amount set? Yes No,
      - If Yes, How much Minimum: _______________ Maximum: _______________
   d. Do all member RuSACCOs save regularly? Yes, No.
      - If no what is/are the reason/s? ____
   e. What percent of RuSACCO members' saving is deposited at the Union? ___________
   f. How does the Union mobilize savings? ____
      ____

5. **Borrowings and Lending**
   a. **Union's borrowing**
      i. Source of credit for the Union in the last 3 years
         - Internal Saving/Member RuSACCOs' share Yes No,
         - Bank Yes No, if Yes, name of the bank/s_________
         - MFI Yes No, if Yes, name of the MFI_________
         - Other, specify ___________________
      ii. Does the Union required to provide collateral to borrow? Yes No
         - If Yes, how much? ____
      iii. Is amount borrowed linked with saving amount the Union deposited in the lender? Yes No
      iv. Does the Union has outstanding debts/amounts not repaid to the lenders, currently? Yes No

	Source 1	Source 2	Source 3	Source 4
How much?				
Interest Rate?				
Flat or Declining?				
Application/Service charge?				

      v. Do the Union repaying the loan in time? Yes No
         - If No, what is/are the reason/s ________________________________
      vi. Is there provision for loan loss? Yes No
         - What percent? ___________
      vii. Is there insurance (credit life insurance)? Yes No
      viii. Does the Union prepare business plan to borrow? Yes No
      ix. Does the management able to prepare business plan to borrow from the indicated sources? Yes No

x. Can the Union access interest free loan from the lenders? Yes No

b. Union's Lending

i. Do all member RUSACCOs received loan from the Union in the last 3 years? Yes No
   - If No, what is/are the reason/s ______________________________

ii. Amount of loan disbursed in this fiscal year ________________
   - How many RuSACCOs received? ___________

iii. Amount of Outstanding loan, current ___________________

iv. How many of the RuSACCOs are currently having outstanding debt? __________

v. Do the RuSACCOs repaying the loan in time? Yes No
   - If No, what is/are the reason/s ______________________________

vi. Is there provision for loan loss? Yes No
   - If Yes, what percent __________

vii. What are major activities that the loan is provided for?
   - _______________ ______________ ________________
   - _______________ ______________ ________________

viii. Do RuSACCOs required to submit business plan to borrow? Yes No

ix. Does the Union have sufficient loanable fund to serve its members? Yes No
   - If No, what is plan to serve members' application? ___________________

x. Is there interest free loan the Union is providing to RuSACCOs? Yes No

xi. How long will it take for a new RuSACCO to access loan from the Union? _____

xii. **Loan Features**
   - Types of loan products: _________ ________ ____________ ___________
   - How much is the minimum and maximum loan amount per RuSACCO? _____
   - What is the loan term (minimum and maximum number of months a loan is provided to a RuSACCO)? _____________________
   - How much is the interest rate? __________ Flat or declining? ___________
   - Any application/service charge _____________
   - Is there micro insurance (credit life insurance)? Yes No
   - Is there collateral or Guarantee required to borrow? Yes No

6. Union's services to the community, if any_________________

7. Physical and Financial Structure and Staffing

Financial Structure

a. Total asset of the Union (birr) _____________
b. Is the Union's total asset increasing, no change or reducing? ___________
c. Does the Union has non-financial investment (like in supermarkets, schools, etc) Yes No
d. Liability-member RuSACCO's saving maintained at the Union. ___________

Physical Structure

a. Does the Union have own office? Yes No
   - If Yes, new or old, space adequate or not ______________

b. Does the Union have adequate office furniture? Yes No
   - If No, what furniture and office equipment most required, currently? (list them in priority order) ____________ _____________ ____________ ___
c. Does the office have communication tools (like telephone,)? Yes No
d. Does the RuSACCO have sufficient office supplies? Yes No
   - If No, what office supplies are mostly required, currently? (list them in priority order)

     ____________ _____________ ____________ ___

Staffing

a. Does the Union have staff appropriate number to manage the day to day activity? Yes No

8. **Support received:**
   a. List support you received from the woreda, Zone (cooperative promotion office and others) _________ ____
   b. List support you received from other organizations in the last 3 years, (name of the organization, NGO) ____
   c. Does the Board, management, accountant of the Union taken any training in this year from any organization (government and/or NGO)? Yes No
      - List them ____________ _____________ ______________
   d. What kinds/topics of training are required for the management, accountant, and others? (list them) _________________ ______________________ __________________
9. What are services, other than financial services, provided by Union to its members

   ____
10. Does the Union & its members accessed the current Capacity Building opportunities from government? Yes No
    - If Yes, what and how? _______________________________
11. Does the Union have work experience with NGOs? Yes No
    a. List them _________________________

Annex 6: Livelihood Groups FGD checklist

CRS and its partners are responsible to ensure financial and non-financial linkages only happen as a need from households in SILC groups/LGs and not supply-side driven. It is not enough to assess capacity of financial service providers without conducting a Linkage Readiness assessment of the demand-side (beneficiaries in the project). Apart from conducting a Value Chain Finance Assessment which shows the value chains households are involved in and their financial needs, a focus group discussion with beneficiaries will reveal other needs, pain-points and aspirations that, if addressed, will enrich the linkage experience.
An example of a focus group discussion tool is below:

SECTION B: DEMAND-SIDE *(Pre-linkage pull factors)*

Respondents: *Livelihoods groups*
Please rate the following products in terms of levels of demand for your household

3: *Very High* **2:** *High* **1:** *Low* **0:** *I don't need it*

Service and product	**3**	**2**	**1**	**0**
Loan to purchase inputs (seeds, fertilizers etc.)				
Loan to purchase farm equipment				
Loan to purchase livestock				
Loan to buy food or clothing				
Loan to start a business				
Loan to expand my business				
Loan to pay school fees				

Other products that you need but are not mentioned in the above list can be listed below and rated with the same matrix.

____

____

1. **What formal financial service providers is found in your locality? Please mention their names (RuSACCO, microfinance institution)**

   ____

____
____

3. **Of the above financial service providers, which one is your primary preference?**
____
____

4. **When selecting the financial institution, which one of the following had the most influence in your decision?**
   a. Recommendation from a friend or associate ___ b. Location of the facility ___
   c. Quality of the service ___ d. Price of the product
   e. Any other, please explain
____
____
____
______

5. **How far does it take you to reach the nearest financial institution?**
   - Less than 30 minutes
   - 30 minutes to 1 hour
   - 1 – 2 hours
   - More than 2 hours

6. **What do you consider before taking up a loan from an external financial institution other than your SILC group?**

	Loan repayment period
	Interest rate
	Loan size
	Loan product being offered
	Friendliness of staff
	Nearness of the institution
	Collateral/security requirements
	Loan disbursement timing
	Loan disbursement efficiency
	Loan repayment modality
	Other (specify)

If you were previously linked to FSP, what do you recommend to be improved?

Annex 7: Key Informant Interview (stakeholders)

CRS and its partners are responsible to ensure financial and non-financial linkages only happen as a need from households in SILC groups/LGs and not supply-side driven. It is not enough to assess capacity of financial service providers without conducting a Linkage Readiness assessment of the demand-side (beneficiaries in the project). Apart from conducting a Value Chain Finance Assessment which shows the value chains households are involved in and their financial needs, a focus group discussion with beneficiaries will reveal other needs, pain-points and aspirations that, if addressed, will enrich the linkage experience.

An example of a focus group discussion tool is below:

SECTION B: DEMAND-SIDE *(Pre-linkage pull factors)*

Respondents: *Government stakeholders*

2. **Please rate the following products in terms of levels of demand in your woreda**

3: *Very High* **2:** *High* **1:** *Low* **0:** *not needed*

Service and product	3	2	1	0
Loan to purchase inputs (seeds, fertilizers etc.)				
Loan to purchase farm equipment				
Loan to purchase livestock				
Loan to buy food or clothing				
Loan to start a business				
Loan to expand my business				
Loan to pay school fees				

Other products that you think is need but are not mentioned in the above list can be listed below and rated with the same matrix.

____

3. **What formal financial service providers is found in the Woreda ? Please mention their names (RuSACCO, microfinance institution)**

____

7. **Of the above financial service providers, which one is most preferred by community? why?**

   ____

   ____

   ____

   Which one do you recommend? Why?

   ____

   ____

8. **What do you think communities should consider before taking up a loan from an external financial institution ?**

	Loan repayment period
	Interest rate
	Loan size
	Loan product being offered
	Friendliness of staff
	Nearness of the institution
	Collateral/security requirements
	Loan disbursement timing
	Loan disbursement efficiency
	Loan repayment modality
	Other (specify)

9. **Is there any financial linkage experience between communities and formal financial service providers in the woreda? If yes,**
   a. **. What lesson did you learned from this experience?**________________________

      ____

      ____

      ____

   b. **. What challenges/problems did you observe?** _____________________________

      ____

      ____

   c. **What do you recommend to be improved for the future linkages?**

      ____

      ____