# DECLARATION

**By Student**

I hereby declare that the Dissertation entitled **‘MARKET STRUCTURE AND PERFORMANCE OF MICROFINANCE INSTITUTIONS IN ETHIOPIA’** submitted for the partial fulfillment of the M.A. in Rural Development to Indira Gandhi National Open University, (IGNOU) New Delhi is my own original work and has not been submitted earlier to IGNOU or to any other institution for the fulfillment of the requirement for any course of study. I also declare that no chapter of this manuscript in whole or in part is lifted and incorporated in this report from any earlier work done by me or others.

Place: Addis Ababa, Ethiopia

Date: May 18, 2012

Signature\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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# CERTIFICATE

This is to certify that Mr. Anbessie Chaka Robele student of M.A. (RD) from Indira Gandhi National Open University, New Delhi was working under my supervision and guidance for his project work for the course MRDP-001. His project work entitled **‘MARKET STRUCTURE AND PERFORMANCE OF MICROFINANCE INSTITUTIONS IN ETHIOPIA’** which he is submitting, is his genuine and original work.

Place: Addis Ababa, Ethiopia

Date: May 18, 2012

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# DEDICATION

This research project is dedicated to my wife, Serkalem who supported me in one way or the other during my study. It is also dedicated to my beloved son, Duran.

I wish them all the best in life, and May the blessing of the Almighty God be upon them.

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# LIST OF ACRONYMS

AAU Addis Ababa University

ACSI Amhara Credit and Saving Institution

ADCSI Addis Credit and Saving Institution

AEMFI Association of Ethiopian Microfinance Institutions

AVFS Africa Village Financial Service

CBE Commercial Bank of Ethiopia

CGAP Consultative Group to assist the poor

CEO Chief Executive Officer

DECSI Dedebit Credit and Saving Institution

EIU Economist Intelligence Unit

GNI Gross National Income

GTP Growth and Transformation Plan

HHI Herfindahl-Hirschman Index

 IFAD International Fund for Agricultural Development

MBB Micro Banking bulletin

MDGs Millennium Development Goals

MFIs Microfinance institutions

MOE Ministry of Education

MoFED Ministry of Finance and Economic Development

 NBE National Bank of Ethiopia

NGOS Non Government Organizations

OCSSCO Oromia Credit and Saving Institution share company

OECD Organization for Economic Cooperation and

 Development

PAR Portfolio At Risk

PASDEP Plan for Accelerated and Sustained Development

 to End Poverty

ROA Return on Asset

ROE Return on Equity

RUFIP Rural Financial Intermediation Program

SEEP Small Enterprise Education Promotion Network

SFPI Specialized Financial and Promotional

 Institution

UN United Nations

UNCDF United Nations Capital Development Fund

UNDP United Nations Development Program

WB World Bank

# DEFINITIONS OF TERMS

**Concentration:** According to OECD (2007) glossary of statistical terms, concentration refers to the extent to which a small number of firms or enterprises account for a large proportion of economic activity such as total sales, assets or employment.

**Concentration ratio:** The concentration ratio indicates whether an industry is comprised of a few large firms or many small firms.

**Herfindall-Hirschman Index**: Index used to measure concentration.

**MFI Performance:** Refers to MFI’s operation result over a period of one accounting/financial year. The results are measured based on predetermined criteria.

**Gender sensitive:** According to AEMFI (2011) Bulletin 7, MFIs are gender sensitive if managed to have more than 50% women borrowers.

# ABSTRACT

Microfinance business, developed over the last 30 years, came to picture to provide credit service to the poor and low-income clients. It also works towards inculcating the culture of saving whereby clients manage to accumulate asset in the form of cash and in kind for investment, among others.

The research employed secondary and some sort of primary data for the period 2005-2010 where the study focused mainly on market structure and performances of Ethiopian MFIs. Market concentration analysis has been made using concentration ratio (the four largest MFIs) and HHI on the basis of active borrowers and loan portfolio. The study also used the best and widely used performance indicators namely depth of outreach, breadth of outreach, deposit loan portfolio ratio, gender sensitivity, Return on Asset (ROA), Return on Equity (ROE), portfolio asset ratio, operating expense ratio, cost per borrower, active borrowers per loan officer, portfolio quality, and debt to equity ratio.

The findings of the study indicated that the Ethiopian microfinance industry is booming though the rate of growth of outreach started declining steadily during the last three years. The loan balance per borrower /GNI per capita of Ethiopian MFIs shows that the sector is poor performer in reaching the poorer as they extend larger loans than the MBB benchmark. The largest four MFIs enjoyed substantially higher growth as compared to Ethiopian MFIs as a whole and the market structure suffers from high market concentration during earlier years and has shown remarkable improvement and become moderate starting from 2009. The average of six years under consideration (2005-2010) is also considered to be moderate.

The Ethiopian MFIs in general and top four in particular are less gender sensitive as compared to African average. Despite this, the microfinance industry in Ethiopia recorded remarkable performances in terms of profitability, efficiency and productivity indicators when compared to African industry standard and MBB benchmark. However, the quality of portfolio is less and debt to equity ratio shows that Ethiopian MFIs have less access to commercial sources as compared to that of African MFIs. The Findings of the study are beneficial for regulatory authorities, policy makers and practitioners for necessary consideration so as to enhance the competitiveness of the sector.