



## **VOLUNTEER REPORT**

### 1.1 Assignment information: **ET38**

- Volunteer Name: Scott W. Stovall
- Host Organization: Metemamen Micro Finance Institute (MMFI)
- Assignment: Credit and Savings, Record Keeping
- Dates of Assignment: February 13 to March 5, 2015
- Number of days worked: 21
- Media Outlet: Group Presentation

#### 1.2.1 *Objective 1 in your SOW – Concept and importance of saving and credit services*

- Progress with the objective – 100% Completed
- Expected impacts/results

85% of the population in Ethiopia is tied to agriculture and this sector is where most of the poverty and low income generation occurs. Most farmers do not have the capital to pay for all the inputs required to successfully grow a crop. Some sort of financing is generally required and lending programs are crucial in meeting the needs of the farmers to generate income. However, due to the high risk associated with agriculture, most lending institutions require farmers to post physical asset collateral to cover a loan in case of default. As a result, it becomes very hard for farmers to meet this requirement and if they do succeed in getting a loan, it is generally at a very high interest rate, which can consume most of their profits. So it is hard for farmers to increase their income levels.

Processing loans for small amounts is very tedious and labor intensive, so as a result, most commercial banks don't want to spend their time and money on lending small amounts of money. Micro financing institutions, like MMFI, help fill this gap. They can dominate the small farmer lending market at a level that generates enough profits for them to operate on a sustained basis to operate in this sector.

As a result, the impact micro finance institutions have on small rural farmers is tremendous. By using social collateral instead of physical asset collateral, it opens the door for many rural farmers to access small amounts of credit that they would not be able to access otherwise. The expected impacts and results will be that economically challenged farmers will be able to buy quality inputs such as improved seeds and fertilizers, which will increase yields and give them a better chance of increasing their incomes. With improved incomes, they will have the ability to save a portion of their profits for emergencies and to educate their children. As a result, their economic livelihoods will improve.

- Recommendations

- Currently, MMFI Shashemene Branch is getting about 60 new customers per month, and it looks like this trend will continue. Cash liquidity to issue loans is always a problem when large amounts of new customers are seeking loans. MMFI is continuing to seek subsidies from donors, low interest rate loans from development banks, loan guarantee programs, and encourage savings to increase the capital for the loan revolving fund.
- To manage risks and defaults on the loan portfolio for sustainability, the loans from the loan revolving fund should be diversified by crop type, region, loan product type (women microbusinesses, employer loans), irrigated versus rain fed crops, and livestock. Also, ample growth in the cash reserve fund should be maintained.
- MMFI may want to consider offering additional services like working capital facilities (lines of credit) for reliable clients, offering small equipment loans, forming strategic business alliances with farmer associations, unions and cooperatives and form financing partnerships with input suppliers.
- For some reason, when farmers reach the maximum loan amount of 12,000 birr after several years of paying off loans and creating a favorable track record, they are urged to move to other financial institutions for lending purposes. MMFI may want to reconsider this practice.
- The office space for MMFI Shashemene is small. The branch is currently adding new loan officers and when customers come in, the office is very crowded. MMFI may want to consider renting a bigger space or buying an office. Purchasing an office can be considered an investment and added as an asset on the balance sheet.

*1.2.2 Objective 2 in the SOW- Loan management including loan application and assessment, loan approval and disbursement, and loan recovery and supervision*

- Progress with the objective – 100% Complete
- Expected impacts/results
  - By increasing efficiencies in the lending process, it can free up the time for loan officers to seek new clients and work with existing customers, which will help lower defaults and increase profits for MMFI. As profits grow, the loan revolving fund should grow, and hopefully interest rates can be reduced so farmers can increase their profit margins which will provide more income to their families.
- Recommendations
  - With a zero default rate, high new customer growth, a successful lending and saving program, and smart and productive management and staff, its hard to make many recommendations because the process is working successfully.
  - During this high growth business phase, however, MMFI may want to consider to start looking toward the future when growth will start to slow. Some of the areas they may want to start working on is creating efficiencies in the paperwork by streamlining the process through computer applications for the loan officers. As a result, this can free up the loan officers time to be in the field pursuing new customers and help reduce operational costs.
  - The GRAD program has a default rate of around 17%, which is high. The program is tied to the Safety Net Program so the lending criteria is different then the MMFI program. After 5 years, the amount in the GRAD program reverts to the MMFI loan revolving fund, so it is in the best interest of MMFI to reduce defaults and get repayments on existing defaulted loans. They are working very diligently to address this challenge. CRS may want to consider letting MMFI run the GRAD program like their regular lending program through group dynamics for social collateral.

*1.2.3 Objective 3 in the SOW – Recording and keeping financial records*

- Progress with the objective – 100% Complete
- Expected impacts/results
  - Record keeping, with the objective of farming as a business, will allow farmers to make management decisions on what crops to grow, how to develop a breakeven which will help them negotiate better in the market place, and control costs while increasing yield. As a result, they will be able to repay loans, know the importance of lending, and use lending to their advantage to increase profits.
- Recommendations

- As part of the MMFI orientation process to new customers, MMFI may want to consider including a small training on farming as a business such as showing them how to calculate total production costs, revenue received, and profit/loss. As a result, farmers can see that they can repay the loan with interest, and that the profits generated can be saved with MMFI.
- This training will also help the MMFI loan officers know the approximate breakevens for crops produced so they can evaluate the profit/loss margins based on market prices, which will give them an idea of the ability of the farmers to service their loans. The loan officers will also have the ability to know what the costs of production are so they can determine if the loan size requested by the borrower is appropriate.
- The ability of farmers to understand farming as a business will allow them to diversify crops, increase yield, reduce costs and increase income. As a result they are more likely to repay loans and reduce default rates.

### 1.3 Number of people Assisted

- Through formal training - 259
- Through direct technical assistance (Do not double count) - 7 (2 male and 5 female)
- Out of these above, number of host staffs - 7

#### Training/assistance by field

Topic/field	Total	Females	Males
-Farming as a Business -Record Keeping -Importance of Savings and Credit -Loan Management	266	159	108
<b>Total</b>	266	159	108

### 1.4 Gender

- What gender roles did you recognize in your host community?  
Farming is done by both women and men. Women do the seeding, weeding and help with harvesting. They are involved in delivery of the crop product and takes part in the selling, however, it is the men, who negotiates and conducts the selling. The women generally manages the money from sales. The MMFI lends primarily to women, who is responsible for the loan but both the husband and wife use the proceeds from the loan to buy inputs for farming.
- Did these roles play a part in your assignment?

- Yes, since the MMFI loans are geared toward women, the majority of the trainings were with women but the husbands also attended to understand farming as a business and record keeping.
- How might CRS or the host organization improve opportunities for the women in this host or host community?
  - CRS should continue to train women and families on the importance of savings, farming as a business rather than an occupation, and the effective use of credit as a tool to run their business. As their knowledge builds, they can use many techniques to improve their income levels, like storing crops for better price movements, reducing crop loss, value addition, and improved production while keeping in mind that each step improves the chances of putting more money into their pockets.

#### 1.6 *Value of volunteer contribution in \$*

- Hours volunteer spent preparing for assignment – 25 hours
- Estimated value of all material contributions volunteer contributed during assignment - \$70.

#### 1.7 *Value of hosts' contribution in \$ (Please consult the host as well)*

- Meals-\$20
- Transportation - \$50
- Lodging
- Translation - \$500
- Other (Specify)

#### 1.9 Host Profile Data:

Did you obtain any data that supplements or corrects the data in the existing host information as detailed in the SOW? Please list it.

- MMFI has five loan programs which include farm loans, women micro businesses, employer based loans, trust loans, and the CRS Grad program. The client base is comprised of 75 percent women, 80% farmers, 8% women microbusinesses, 5% employer loans, and 1% trust loans. The MMFI Shashemene branch loan portfolio is approximately 7 million Birr and the GRAD loan program portfolio is approximately 1.2 million Birr. Interest on loans range from 15 to 20 percent per annum.
- There are two types of savings programs, voluntary and compulsory. In the compulsory saving program, 10 percent of the loan amount is required to be put in the saving account along with 1 percent of the loan amount per month. Interest paid on both savings accounts is 6 percent per annum. The minimum amount required to open a voluntary savings account is 5 birr and can be added to at anytime.

### Recommended future volunteer Assistance

Several farmers mentioned that their crop loss on potato production, due to spoilage, could be as high as 35 percent. If it's in the context of this F2F program in Ethiopia, a volunteer can be used to help train farmers on the storage of potatoes.

### Notes

The micro finance-lending model used by MMFI is very effective in meeting the financing needs for small rural farmers. The model, originally developed by CRS, uses social collateral instead of physical asset collateral to use in the event of a default. The use of asset collateral has always been a sticking point with farmers in poor rural areas, who cannot come up with enough physical collateral to guarantee a loan. As a result, they are generally forced to borrow from local brokers, who charge very high interest rates, which eats up the farmer's small profits. The MMFI Shashemene Branch is fairly new (less than 2 years old), and so far, they have a zero default rate. With this level of success, CRS might want to consider using MMFI employees to teach micro finance institutions in other countries on how to use social collateral effectively in their lending process.

I really enjoyed working MMFI and Mr. Samuel Wagari, the Shashemene branch manager and the staff of the Shashemene branch. I really enjoyed the assignment and learned a lot on the social collateral system as a very effective way for providing financing to farmers.

I would also like to thank the CRS staff in Addis Ababa for the excellent job they did in coordinating this project and Maria Figueroa in Baltimore for arranging the pre-assignment logistics.