Challenges Facing Officials of Microfinance: The Case of Amhara Credit and Saving Institution (ACSI), Ethiopia

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Abstract
Microfinance institutions are the main agent of developmental program and in Ethiopia it is now characterized by dominant role towards alleviating of poverty. The aim of this study is to identify and highlighting the key challenges facing officials of microfinance institutions, a case of Amhara Credit and Saving institution, Ethiopia. A survey research design was adopted and relevant data for the study were collected from 100 officials of Amhara credit and saving institution through questionnaire. Descriptive statistics were employed for analyzing the data. The findings of the study showed that officials of the institutions facing several challenge emanated from system of the organization and from the side of clients. So, policy makers and the institution itself should give emphasis to avoid the challenges facing officials.
Keywords: Microfinance, challenges , officials

Introduction

In recent year poverty, multidimensional phenomenon, is a continual problem and become a growing concern overall the world, particularly in developing countries. Poverty can be defined as poor health, low income, inadequate education, difficult or insecure work, political disempowerment, food insecurity (Alkire, 2011). According to the estimates of the World Bank (2010), in the year 1981, more than half of the citizens in developing world lived with less than $1.25 a day. The frequency of poverty is more in Africa than other countries. In spite of a good remarkable progress, sub-Saharan Africa still accounts for more than one-third of the world's extreme poor (World Bank, 2013).

One of the identified constraints facing the poor while they struggle to move out of poverty is lack of access to financial service from formal financial institutions, mostly access to credit and saving. Majority of the people from developing countries are poor and when poor people have access to credit and other financial services, they can earn more, build their assets, invest on their own future and cushion themselves against poverty.

Accordingly microfinance institutions are considered as the main tool by developing countries to overcome poverty through accessing financial service for the productive poor section of the society who are affected by lack of access for credit and other related financial services.

Over the past decades, it is believed that the revolution of microfinance institutions changed the attitude of different governments that poverty can be reduced through providing and assisting substantial flow of credit and other related services to the poor in many countries. As a result, for more than 30 years, microfinance has been portrayed as a logical approach through using policy and program intervention for poverty alleviation (Bateman, 2011).

With respect to poverty reduction, it is the core objective of the Ethiopian government (MOFED, 2002) and strives to incorporate different poverty alleviating strategies within its development policies. Among those programmes intervening with supplying credit for productive poor and giving them opportunity to save; thereby ascertaining access to finance with microfinance institution is considered as one of the important tools for curving poverty. This paper intends to identify challenges faced officials of microfinance institution during their operation.

Statement of the problem

Ethiopia is the second-most populous country in Sub-Saharan Africa with a population of 94.1 million (http://www.worldbank.org/). The international monetary fund (IMF) ranks Ethiopia as among the five fastest growing economy in the world. For this economic improvement microfinance institutions have a lion's share and the government has well recognized MFIs as one of the important tool for achieving the first millennium development goal.

Several empirical studies depicted that the role of microfinance institutions in the economy of the developing country have positive effect on poverty alleviation (Razzaque, 2010**;** Berhane and Gardebroek, 2011; Prasad and Gyawali, 2011; Mohammed and Emmanuel, 2013). But, obviously there are several challenges facing officials during operation their duty. With regard to identifying challenges, studies were conducted in different countries by researchers like Nasir (2013); Sarker (2013); Mohammad (2010); Mutambanadzo, Bhiri & Makunike (2013). But in Ethiopia as the knowledge of the researcher there is limited study in identifying challenges faced officials, so this study intended to fill the gap i.e. to identify challenges faced officials in microfinance institutions in the way of poverty alleviation with a particular reference of Amhara Credit and Saving Institution (ACSI).

Research methods

A survey research design was used in the study. Questionnaire was an instrument to collect the data from a sample of 100 ACSI officials who involved actively in the operation. To select the samples convenience sampling technique were employed. The statistical package of SPSS was used to analyze the data and the researcher was used descriptive statistics to interpret the result.

Literature Review

The increased attention for microfinance currently is because of its pioneer for development program as a catalyst. Ledgerwood (1999) microfinance has evolved as an economic development approach intended to benefit low-income women and men. Moreover, microfinance, according to Otero (1999) is "the provision of financial services to low-income poor and very poor self-employed people". These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services.

The emergence of Microfinance institution

The history of microcredit is back to the early 1700s, for example, one of the earlier and longer-lived microcredit organization providing small loans to rural poor with no collateral was Irish Loan fund system; that was initiated in the early 1700s (Hollis and Sweetman, 1996). In addition, many informal credit groups have been operating in many countries for several years like the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in west Africa, and "pasanaku" in Bolivia and others. But the year 1974 is a landmark in the history of the development of microfinance. It was by then that professor Muhammad Yunus, a Bangladesh economist and the pioneer of modern day microfinance introduced the idea of providing the poor with small loans. In1976 professor Muhammad yunus launched an action research project to design a credit delivery system and simultaneously the Grameen bank project came in to operation i.e. he was founded a Grameen bank that has helped millions of low income entrepreneurs, predominantly women, to get access to loans.

Microfinance has become a relevant sector globally and it is an infrastructure made by the government and other stake holders, who are striving to alleviate poverty and bring social promotion, financial inclusion and empowerment, through reaching and serving the underserved poor in an innovative way financially especially in developing countries (Milana and Ashta, 2012). According to Weiss et al., 2003, in recent years MFI has been influenced both of the thinking and practice of the government towards the bold ambition of alleviation of poverty with that MFI coming to be seen as a strong tool through providing a range of financial service to the poor. The potential of microfinance to alleviate poverty by facilitating the economic growth through easing liquidity constraint in production and providing capital to start up their income generating activity to the client, fueled the emerging of the institution and increasingly important in development strategies across the world (Hulme, 2000).

Microfinance in Ethiopia

The concept of microfinance is not new in Ethiopia but, as an industry it is relatively new phenomenon. Traditionally, people have saved with and taken small loans from informal channels for unexpected events from the so called Iqub i.e. an association of people halving common objective mobilizing finance and distribute it to members through rotating and Idir i.e. a funeral insurance established and operated by the volunteer community (Emana, 2009).

Saving and credit services through cooperatives in Ethiopia took in 1950s (Welday, 2004). The first saving and credit cooperative (SACCO) in Ethiopia was established by the employees of Ethiopian Airline in 1956 (Bezabih, 2012). International donors, NGOs and the government of Ethiopia have also supported the expansion of credit and saving to the rural poor in the 1970s to 1990s. During the period the delivery of rural credit i.e. input loans in Ethiopia was intervened through formal banks such as Agricultural and industrial development bank.

The emergence and development of modern microfinance institution in Ethiopia is recent phenomenon that happens because of formal financial system like commercial banking system was very limited and could not address the financial need of poor households for the fact that they are not their ultimate target client.

By the end of 2012/13, as per the annual report of National Bank of Ethiopia (NBE), 31 MFIs have been registered with the national bank of Ethiopia and operate under the auspices of proclamation no. 40/1996 in the country (rural and urban areas) and accordingly their total capital and total asset reached Birr 4.5 billion and Birr 17.7 billion respectively. Deposit mobilization and credit offering activity also revealed a remarkable increment i.e. reached ETB 7.6 billion and 12.8 billion respectively.

The Ethiopian microfinance institution sector is characterized by its rapid escalation, significant saving mobilization, an aggressive drive to achieve scale, a broad geographic coverage and an emphasis on rural households. The increase in number of microfinance institution indicated that the Ethiopian microfinance industry has undergone tremendous growth and development within a very short period of time and also revealed that the emphasis the government given to the strategy to alleviate poverty and to bring economic development in the country is increased from time to time.

Amhara credit and saving institution (ACSI)

ACSI can be considered as the pioneer of modern microfinance institution in Ethiopia and its operation is traced back to 1995 as a department with the initiation of the former Ethiopian relief organization (ERO) currently organization for Rehabilitation and development in Amhara (ORDA), an indigenous NGO engaged in development activities in Amhara region. ACSI had undertaken pilot activities in 1996 and was licensed by National Bank of Ethiopia as microfinance intermediary Share Company in April 1997 (www.acsi.org.et.) with generous support of the Amhara regional government and donors.

Its primary objective is promoting agricultural and non-agricultural activities by providing sustainable financial service for poverty alleviation and stimulating the region's economic growth. To achieve its objective, ACSI operates in a very tough environment with the majority of its clients being from the rural area of the region; in line with the government's policy ACSI's target focus is the low income, rural based, susceptible to draught and productive poor with a special emphasis on women (USAID, 2006). ACSI currently delivers microfinance activities including credit, saving, micro insurance, and money transfer and fund management.

Nineteen years have been elapsed since ACSI engaged in providing micro financial services to the asset less potential productive poor section of the society across the region who had not had any access to the services of formal financial institutions before ACSI. It is now a three tiered organization with head office in Bahir Dar (capital city of Amhara national regional state), 8 area or regional offices and 331 branches in the area offices (ACSI quarterly report, 2014).

ACSI has more than 3 million Active clients and out of this total client 955,218 (63 % female) clients are active borrowers and 2,414,901 (47 %) voluntary savers. In terms of kebele (the last governmental administrative unit in the country), currently it is rendering its services in 3397 "kebeles" (97 % of the total) in the region. However, the demand for microfinance in the region is still largely untapped.

Since its establishment, its capital grown from 3 million ETB to 2.065 billion ETB and its total asset reached 8.5 billion ETB. It has mobilized a total of 7.7 billion ETB total savings from 5.3 million savers (ACSI report, 2014).

There is a rising interest in microfinance is due to the increasing incidence of poverty in the country but, ACSI faced many challenges to reach the demand for the service within the region by the poor. Strategizing microfinance to alleviate poverty will depend on how well these challenges are addressed.

Some empirical studies regarding to challenges of micro finance institutions

Dixon, Ritchie and Siwale (2009), conducted a study on Managing Loan delinquency and Microfinance with respect to Zambia. The researchers seek to correct the neglected importance of loan officer in microfinance institution by explaining their role, dilemmas and tension during under taking their task. The data used in the study were drawn from Zambia and focused on the recent repayment crises of one microfinance institution. The finding of the study showed that the loan officers faced powerful accountability pressure and they are under intense pressure as a result they used inappropriate methods to compel repayment and they faced a problematic relationship with clients that leads loan officers experienced job related tension. Therefore care is needed for the officers because the implementers of policies of MFIs are officers.

Mohammad (2010) highlighted in his study that microfinance institutions faced many challenges like improper regulation, increasing competition, innovative and diversified products, and limited management capacity. The researcher suggested that government needs to play its vital role to accelerate the sector and provide essential facilities to minimize challenges and strategic policy towards the microfinance sector should be developed and design to boost and defend the challenges of in future.

Nasir (2013) tried to outline contemporary issues and challenges for microfinance in India and discovered the prevailing gap in functioning of MFIs such as practices in credit delivery, lack of product diversification, customer overlapping and duplications, consumption and individual loan demand with lack of mitigation measures, less thrust on enterprise loans, collection of savings/loans and highest interest rate existing in micro finance sector. The researcher noted all these are clear syndromes for missing the mission of microfinance institutions. Finally the paper concludes with practicable suggestions like a need for an exclusive regulation to regulate MFIs, ensure the quality of MFIs in an environment of exponential growth, proper training for the client should be organized in an efficient way and ensure the uniform distribution of micro financing in both urban and rural areas in India.

Sarker (2013) in his study attempted to explore pressure on loan officers in microfinance institution. Even loan officers play diverse and significant role in microfinance institution; they faced several pressures from different direction. Some of the pressures investigated under the study are meeting deadline, powerful hierarchical pressure, reducing portfolio at risk , working more than normal working hours etc. All these types of pressure reduce productivity, creates dissatisfaction with job, lower confidence, hamper relationship, and most importantly attack personal life.

The study suggested some recommendation like proper implementation of Human Resource Policy and Procedures, appropriate planning and supportive culture, effective communication and feedback, adequate staff training and mentoring, following bottom-up approach, strengthening effective communication, logistic support needs to be implemented seriously.

Mutambanadzo, Bhiri and Makunike (2013), analyzed challenges faced by zimbabwean micro finance institutions in providing financial services to the poor and informal sector in the dollarized regime. A survey research design was used in study and data were collected from 17 registered MFIs including one that collapsed. The instruments to collect the data were questionnaires and interviews from key informants those are senior managers and directors. The major findings were that MFIs are facing funding challenges, have poor corporate governance structures and management Information Systems (MIS) have not been fully exploited. The major conclusion drawn from the study was that lack of funding is the dominant factor hindering the growth and development of MFIs in Zimbabwe. Accordingly, recommendation was suggested that MFIs must be adequately regulated and be encouraged to have suitable governance structures in order to attract funding.

The major conclusion drawn from the above previous study was that microfinance institutions officials faced many challenges.

Research results and findings

This section of the study discusses the descriptive statistics result. The major problems identified in the study are categorized under three parts, namely, system related problem, client related problem and staff related problem. Each of the problems is analyzed in detail below:

The questionnaires were distributed to 100 respondents who were selected using simple ransom sampling. Out of 100 questionnaires distributed to sample respondents 97 questionnaires were filled and returned and giving a response rate of 97%.

Interestingly, these possible challenges were classified under three catagories that had been identified in this study. The table under shows the breakdown of the 24 possible challenges

Table 1 classification of the possible challenges identified

Constructs	number of items under each construct
1. System related	13
2. Employee related	9
3. Client related	5

The questionnaire were comprised with two sections starting with demographic characteristics followed by five point likert scale questions (1= strongly agreed, 2= Agree, 3= Undecided, 4= Disagree and 5= strongly disagree).

Table 2 Descriptive analysis

Descriptive statistics

Challenges/problems	N	Mean	Std. Dev.	Grand mean of each construct
1. System related				
1.1. legal and regulation framework	96	2.1771	1.28140	**2.6867**
1.2. In adequate infrastructure	96	2.6250	1.30787	
1.3. inadequate flow funds	96	3.4375	1.43499	
1.4. information flow	96	3.1458	1.42887	
1.5. competition with commercial banks and others	96	2.1771	1.29773	
1.6. High transaction cost and interest rate	96	3.1667	1.44125	
1.7. Loan collection method	96	2.8125	1.55132	
1.8. Adverse selection of clients	96	3.0521	1.43174	
1.9. Lack of effective alliance with other stakeholders	96	3.2292	1.46164	
1.10. Large number of formalities	96	2.0521	1.40951	
1.11. Lack of appropriate staff financial incentive scheme	96	2.1250	1.53039	
1.12. Lack of skill development program for staff	96	2.1146	1.43542	
1.13. Management consequences of unethical pressure on the loan officers	96	2.8125	1.50307	
2. Client related				**2.6204**
2.1. Norms about Loan by clients	96	2.2917	1.19575	
2.2. Skill problem of client /Lack of knowledge	96	2.8125	1.55132	
2.3. Loans used in consumption, not invested by client	96	2.6421	1.43598	
2.4. Production of client is un-diversified	96	2.6667	1.41917	
2.5. Loan default/no to pay totally the loan	96	2.9479	1.44637	
2.6. Uneven population distribution	96	2.4688	1.37641	
2.7. Arbitrarily form groups to get group loan, less trust and then conflict of interest	96	2.8750	1.50962	
2.8. Unwillingness to take consecutive training	96	2.6979	1.50871	
2.9. Late payment of loan/ poor management of debt	96	2.5417	1.36047	
3. Employee related				**3.7396**
3.1. Lack of personal relationship/ smooth approach with borrowers	96	3.6771	1.30178	
3.2. Lack of motivation	96	3.9583	1.27252	
3.3. Level of knowledge	96	3.3854	1.46086	
3.4. Lack of co ordination with different level management	96	3.6250	1.40113	
3.5. Unwilling for working more than normal functioning office hours	96	4.0521	1.29265	
Valid N (listwise)	96			

Source: Adapted from the result of the descriptive analysis

Table 2 showed the means and standard deviation for the different challenges facing microfinance institutions officials on their normal operation. Since the first construct for the scale is challenges related to the overall system of the organization. Under this construct there are thirteen (13) items. Among these items, legal and regulation framework (mean= 2.1771, st.dev. = 1.28140), in adequate infrastructure (mean= 2.6250, st.dev. = 1.30787), competition with commercial banks and others (mean= 2.1771, st.dev. = 1.29773), Loan collection method (mean= 2.8125, st.dev. = 1.55132), Large number of formalities (mean= 2.0521, st.dev. = 1.40951), management consequences of unethical pressure on the loan officers (mean= 2.8125, st.dev. = 1.50307), lack of skill development program for staff (mean= 2.1146, st.dev. = 1.43542) and lack of appropriate staff financial incentive scheme (mean= 2.1250, st.dev. = 1.53039) are perceived by the respondents as challenges happened within the organization.

On the other hand under this construct the respondents didn't perceive the following as a challenge for them to undertake their normal operation. They are inadequate flow funds (mean= 3.4375, st.dev. = 1.43499), information flow (mean= 3.1458, st.dev. = 1.42887), high transaction cost and interest rate (mean= 3.1667, st.dev. = 1.44125), lack of effective alliance with other stakeholders (mean= 3.2292, st.dev. = 1.46164), adverse selection of clients (mean= 3.0521, st.dev. = 1.43174).

The second construct is challenges arisen from client related issues and it consisted nine items. As per the descriptive result of the study i.e. norms about Loan by clients (mean= 2.2917, st.dev. = 1.19575), skill problem of client /Lack of knowledge (mean= 2.8125, st.dev. = 1.55132), loans used in consumption, not invested by client (mean= 2.6421, st.dev. = 1.43598), late payment of loan/ poor management of debt (mean= 2.5417, st.dev. = 1.36047), loan default/no to pay totally the loan (mean= 2.9479, st.dev. = 1.44637), uneven population distribution (mean= 2.4688, st.dev. = 1.37641), arbitrarily form groups to get group loan, less trust and then conflict of interest (mean= 2.8750, st.dev. = 1.50962), unwillingness to take consecutive training (mean= 2.6979, st.dev. = 1.50871), production of client is un-diversified (mean= 2.6667, st.dev. = 1.41917) the respondents perceived that all the nine items are challenges to the officials of the institution.

The third construct focused on employee related challenges and it contained 5 items. The descriptive statistics result i.e. lack of personal relationship/ smooth approach with borrowers (mean= 3.6771, st.dev. = 1.30178), lack of motivation (mean= 3.9583, st.dev. = 1.27252), level of knowledge (mean= 3.3854, st.dev. = 1.46086), unwilling for working more than normal functioning office hours (mean= 4.0521, st.dev. = 1.29265), lack of co ordination with different level management (mean= 3.6250, st.dev. = 1.40113) showed that all respondents disagreed with the items that is the above items under the third construct are not perceived by respondents as challenges for them.

The key findings from the survey suggested that there are several challenges arisen from the system related construct of the organization. Among those, legal and regulation frame work is perceived as a challenge by officials. The government and its agencies contributed to the successful design and implementation of the regulatory frame work for microfinance institution because the regulatory frame work is necessary to ensure the successful implementation of microfinance mission. But the regulatory frame work provided by proclamation 40/96 extremely cautious with several highly restrictive elements majorly confining MFIs to group lending and high interest rate of 14.5 percent (2 percent above the commercial banking rate).

Respondents also agreed that in adequate infrastructure is one challenge for undertaking their operation. MFIs intended to increase the coverage of its service is forced to operate small branches which are physically linked by weak transportation and communication infrastructure. This situation is happen actually in ACSI, so because of such inadequate infrastructure the loan officers and the supervisors are unable to perform their task effectively. As a whole the institution faced difficulties to reach their existing and prospective clients.

Regarding to competition with commercial banks and others it is perceived by respondents as a challenges facing officials of microfinance institutions. Because of the financial infrastructure designed by the government and its stakeholder’s formal commercial banks have broad financial service and large amount of asset that can reach greater number of location. Now a days in Ethiopia the expansion of commercial banks and NGOs increased from time to time, as a result they become competent to the MFIs. Even clients tried challenge the officials by comparing the services and other issues provided by the commercial banks and MFIs. Empirical study by Marlaunda (2005) indicated that the more threatening competition for MFIs comes from formal commercial institution not from informal money lenders. And this intensive competition in Ethiopia may lead some MFIs out of market.

Loan collection method is the other item asked to the respondents to reflect their perception and found an issue that becomes a challenge facing officials of ACSI. Around 56.3 % have positive response that they are not able to collect as they want to do because of weak loan collection method.

Continuous skill development for staff is crucial for the success of the microfinance institution unless it is difficult to achieve its objective. Accordingly, lack of skill development program for staff was also an issue rose in the study and the respondents agreed for this issue as a challenge to accomplish their task properly. This finding indicates that MFI staff working in market needs adequate training. The institution’s concerned body should fix training program on different issues like developing competency, dealing with delinquent clients, time management, stress management and other skills training. These sorts of training could help officers to prepare themselves to tackle challenges in the workplace.

An issue of formalities was raised for the respondents as a challenge when there is large number of formalities incorporated on the normal course of operation. Majority of the respondents agreed there are a large number of formalities and it pose a problem on their task. They suffer a lot because of these formalities, in general if there is large number of formalities it consumes time and potential.

More over under the first construct management consequences of unethical pressure on the loan officers and lack of appropriate staff financial incentive scheme was an issue raised under the survey and respondents agreed that these issues are currently perceived as challenges and affect their performance at work place. Literature stated that unethical pressure create multiple affect on performance of officials and this unethical pressure may destroy employee employer relationship and cause high turnover. On the other hand, financial incentive motivates officials to undertake their task efficiently. But if no financial incentive, officials may ignore huge workload beyond their normal work.

Under the second construct there were nine items raised for respondents around challenges those may raised from client side. The result of the study showed that the respondents are more or less agreed all the issues raised here are perceived as challenges for their operation. Norms about loan by clients was an issue that forwarded for the respondents during survey and the exiting norm of the client about the loan is not as such good as a result to convince the clients to have a positive attitude about the loan needs huge effort and become a challenged duty for officials. Similarly, there is a skill problem or lack of knowledge of clients that becomes a challenge for the officials because majority of the rural area clients are illiterate and they didn't utilize the loan taken appropriately for the proposed use by the MFIs. Moreover, their income generating activities are not diversified and exposed to risk of loss. To avoid this limitation the institution tried to give consecutive training but their distribution are uneven and they are unwilling to take the training. In sum all the above factors lead the client to have poor management of debt and not to pay their loan on time, as a result large amount of loan become delinquent and becomes a problem as a whole for the institutions. All the above issues discussed become challenges for the officials to accomplish their normal task.

Finally the third construct during the survey consisted five items related with issues arise from on the side of employees. The issues raised were lack of personal relationship/ smooth approach with borrowers, lack of motivation, level of knowledge, lack of co ordination with different level management and unwilling for working more than normal functioning office hours. The respondents are not agree with all of the issues and dominantly they are disagreed strongly with the issue related with unwillingness for working beyond the normal functioning hours and they worked even week end as a normal working hour to satisfy the demand of the client.

Conclusion and recommendations

Conclusion

From this survey study the following conclusion can be drawn. Several literatures witnessed that microfinance institutions have a pivotal role on alleviating poverty. It is true that to alleviate poverty i.e. for the success or failure of the institutions as a whole the officials at different level of the microfinance institutions play the key role. Though, during performing their normal operation officials faced different challenges emanated from different sources. The objective of this study is to identify challenges facing officials of ACSI, in Ethiopia and the result of the study revealed that majority of system related issues of the organization and all issues of client related raised were perceived by the respondents as challenges for officials of the institutions. But the issue raised related to that of employees are not considered by the respondents as challenges.

Recommendations

The government and its stake holders / agencies to achieve their poverty alleviation goal they should review the regulatory frame work of MFIs by comparing with that of other formal financial institutions to give an area to the MFIs to stay in the system as well to the market. Regarding to officials at different level, because they are the engine of the operation, the institutions by itself should treat them to encourage in different ways like providing training and other skill development mechanism, financial incentives, fulfilling the necessary equipments and infrastructure for the smooth accomplishment of the operation, reducing formalities to save time and resources, and tried to avoiding unethical acts done by top level managements.

Moreover, the institution exerted its effort on improving the culture and norm of the client about the loan, give consecutive training related with managing and utilizing of the loan granted for the client and how they diversify income generating activities to avoid risk and loan default.

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