

EXECUTIVE SUMMARY

As the microfinance industry matures, ownership and governance issues in microfinance institutions have obtained an increasingly important role in the discussions about the conditions for success, or reasons for failure, of such institutions. In this context, the purpose of this Ownership and Governance Study is to study, establish and recommend options for efficient and effective governance of MFIs in Ethiopia. These issues have gained in importance as a result of the global financial crisis which has resulted in a worsening economic environment in Ethiopia for the operations of MFIs – on the one hand, the demand for microcredit is likely to increase, but on the other hand it is getting increasingly difficult for MFIs to refinance their operations.

The Rural Financial Intermediation Programme (RUFIP) Coordination and Management Unit in the Development Bank of Ethiopia (DBE), with funding being provided by the African Development Bank (AfDB), has awarded a contract to prepare the Study to BKP Development Research & Consulting GmbH of Munich, Germany. The study has been prepared over the period December 2008 to July 2009.

The study builds on the already existing body of work regarding ownership and governance of MFIs in Ethiopia as well as international experience, while adding new data and analysis obtained from original research. In order to analyse ownership and governance practices in Ethiopia, more than 50 interviews of MFI management, board members and shareholders of 13 MFIs (covering more than 60% each of total assets and capital in the Ethiopian microfinance industry) have been held.

The analysis of ownership and governance of MFIs in Ethiopia is based on the identification of the key stakeholders for ownership and governance, their functioning and their relations with each other. First, the structure of ownership has an impact on governance as well as a direct impact on the performance of the MFI. With regard to governance in a strict sense, within an MFI the owners, the board and the management are the key stakeholders, with the board being at the centre. The analysis of governance thus needs to look at the functioning of the board – its responsibilities, structure and procedures – as well as its relations with, on the one hand, the owners, and management on the other. Finally, governance factors determined by the regulatory environment influence the MFI. There are thus five analytical dimensions to be distinguished.