

MFI Lending for Scalable Market-Oriented Agricultural Production



**Metemamen MFI
Ethiopia**

Holistic Innovations in Agriculture Programming
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- Bringing together MFI finance and agriculture production
- Metemamen uses a village banking approach and solidarity based lending
- Offers a range of loan products
- For agriculture - ESHET loan
 - Introduced in 2006
 - Developed for poor rural smallholders
 - Worked with CRS navy bean farmers
 - Expanded to other smallholders and crops

- Market research to identify new products
- Looking to expand to rural markets
- Recognized potential with navy bean farmers
- Contacted CRS because of its link to rural farmers
- Designed Eshet loan product



Key Activities



- Joint identification of creditworthy clients
- Forming clients into village banks
- Credit screening based on seasonality of activities
- Pre-loan client orientation
- Joint monitoring
- No service charges
- Principal repayment based on real cash flows

What is New and Interesting?



- Value chain lens to look at financing scale up
- Linkage with partners for risk reduction
 - CRS Technical support and monitoring
Assisted in (good) client selection
 - Kebeles Client creditworthiness information
Moral pressure to ensure on-time payment
 - Meki & Alem Tena Catholic Churches
 - Assisted in (good) client selection
 - Facilitated seed purchases
 - Technical support
 - Linked groups with other market actors

What is New and Interesting?

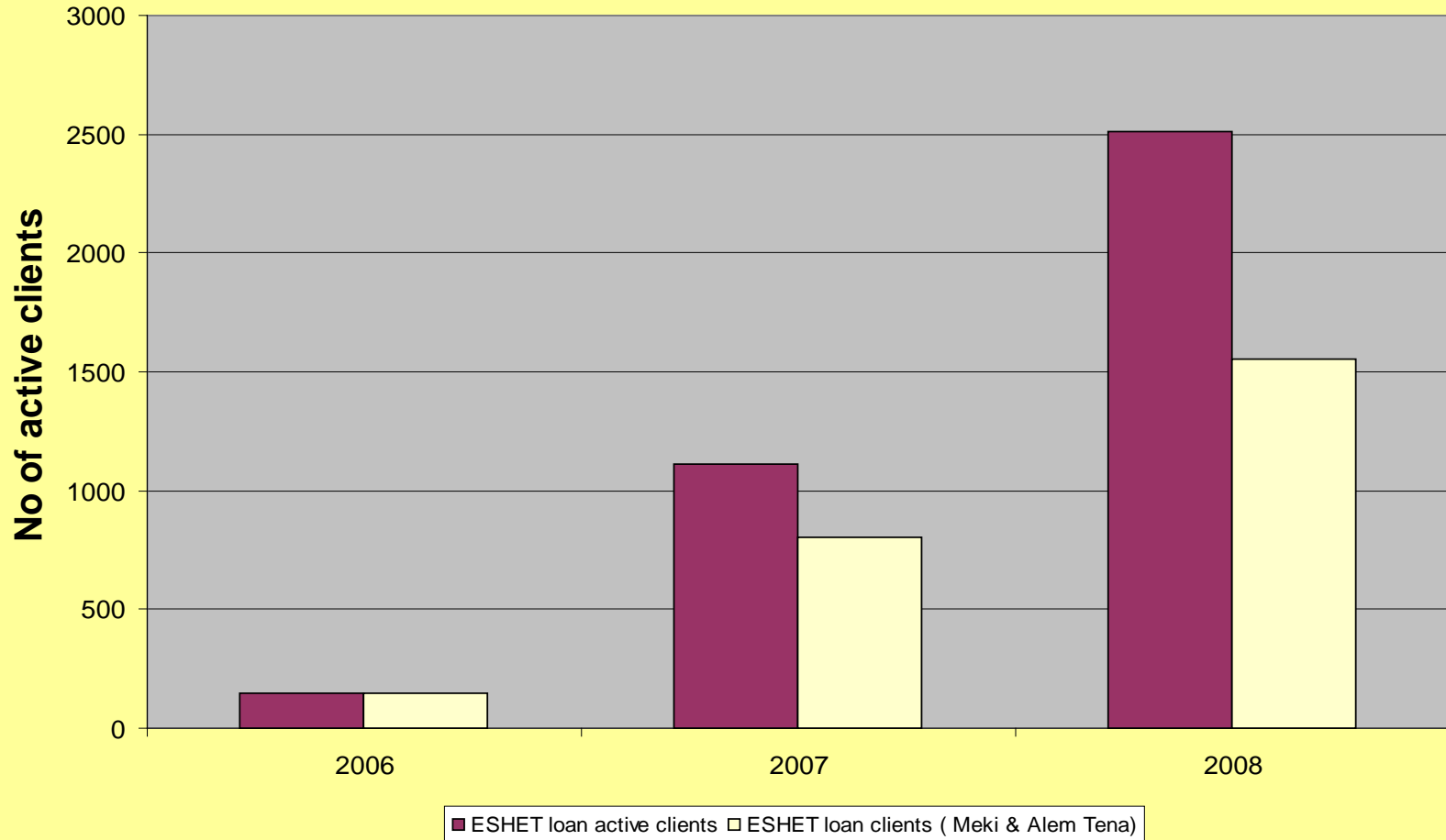


- Opportunity to engage in learning during product design
- Linkage with navy bean value chain
- Change in farmers' attitude towards using market priced loans
- Created opportunity for farmers to create effective community owned organizations
- Promoting savings culture as loans are tied to savings

Results



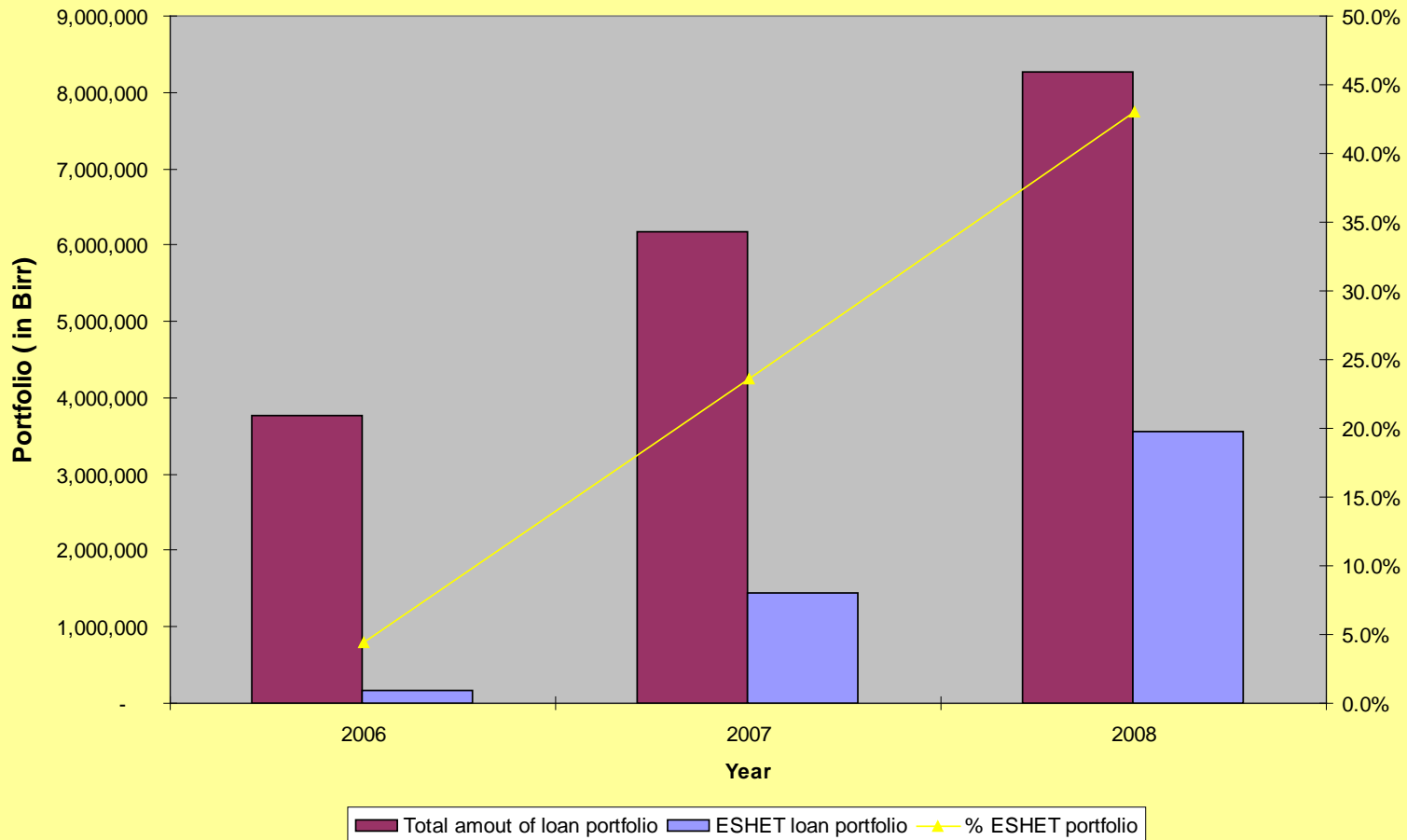
Growth of ESHET Clients



Results



Trend of ESHET Loan Portfolio



Eshet Loans in Navy Bean Project Area

- Ag loans grew from 150 in 2006 to 1,554 in 2008
- Portfolio at risk > 30 days is < 1%
- 12% of Metemamen's loan portfolio with navy bean farmers and 19% in all Eshet loans
- 99% on time loan repayment compared to overall 94% rate
- **Women farmers grew from 57% in 2007 to 74% in 2008**
- Most clients have reached 3rd and 4th loan cycles
- Increase in farmers' incomes



Challenges



1. Increase lending for agriculture without introducing too much covariant risk
2. Delivering cost effective and flexible agricultural loans
3. Shortage of loan capital
4. High inflation rate in Ethiopia – 47%
5. Market distortion by other actors that extend loans below the market rate
6. Need to better understand how to link finance to the production stages

Conclusions



- Ample demand exists for agricultural loans
- Using the value chain lens to identify profitable markets reduces the risk of lending for agriculture
- Loan product based on the farmer needs
- Eshet loan enhances client outreach (scale-up)
- Improves overall loan portfolio quality



The Way Forward



- Expand to other navy bean farmers
- Continue research to improve loan products and to develop new ones as the client needs change over time
- Design multi-phased disbursement loans
- Identify financial resources and partnership arrangements for investment in agricultural loans

THANK YOU!

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