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KOICA and Microfinance:
Microfinance for Socioeconomic Development in Africa.

Abstract

Microfinance gives financial tools to poor people to help them work their way out of poverty. For about two decades, Korea International Cooperation Agency (KOICA) has assisted development of developing countries through grants aid and technical cooperation programs. This report recommends KOICA to employ microfinance in its program, starting from Ethiopia, Africa. Ethiopia is a good candidate because the country has close partnership with KOICA, and good microfinance environment. KOICA should incorporate microfinance in its focus on education and health care for socioeconomic development in Africa, possibly in cooperation with Korean business corporations in the region.

KOICA Profile¹

Korea International Cooperation Agency (KOICA) is a Korean governmental agency responsible for implementing grant aid and technical cooperation programs for developing countries in Africa, Latin America, Central and South Asia, and the Middle East. Established in 1991, KOICA implements bilateral grants of Korea's ODA. Bilateral grants provide technical cooperation and transfers of cash, goods, and services with no repayment obligation. The KOICA act prescribed the following activities for grant aid programs: invitation of trainees, dispatch of experts and volunteers, development studies research, emergency and distress relief activities, and provision of commodities, capital, and facilities. Support programs for civil society and partnerships with multilateral organizations are also prescribed. KOICA currently operates in 30 representative offices in 28 developing countries to achieve UN Millennium Development Goals (MDG) and serve its mission: making a better world together.

¹ KOICA. 2008. 1 April 2010. <<http://www.koica.go.kr/>>.

Over the years, the focus shifted from meeting the basic human needs and fostering human development to promoting sustainable development, developing close partnerships with partner countries, and strengthening local ownership of beneficiaries. Aid themes include education, health, governance, rural development, Information and Communication Technology, industry & energy, environment, disaster relief & reconstruction, MDGs, and climate changes. Currently, KOICA has no microfinance-related projects.

Microfinance Industry and Trend

Microfinance provides poor people access to basic financial tools – normally loans, savings, and microinsurance – to encourage them to engage in productive activities. The industry first emerged in 1974, in Bangladesh, initiated by Dr. Muhammad Yunus.² Over the years, the industry gradually gained international recognition. In 2008, the total number of clients exceeded 150 million, more than 2/3 of whom were among the poorest in the world who live with US \$1 per day household.³ Microfinance's work was honored when Yunus and Grameen Bank, an MFI founded by Yunus, won the Nobel Peace Prize of 2006 for their efforts to “create economic and social development.”⁴

MFIs offer wider and more accessible choices to the poor than commercial banks. Banking requirements for credit/loans and procedures are often difficult for the poor and not appealing enough to go through. Moreover, usual microcredit clients require small amount of loan, and processing and transaction of such microloans are not feasible for the banks. As banks are private and commercial entities, their ultimate goal is generating returns, and formal financial institutions are reluctant to finance unprofitable loans.

² Perkins, Anne. “A short history of microfinance.” Guardian. June 3 2008.

³ Daley-Harris, Sam. “State of Microcredit Summit Campaign Report 2009”p. 30

⁴ “The Nobel Peace Prize 2006”. Nobelprize.org. 13 Oct. 2006. Web. 25 March 2010.
<http://nobelprize.org/nobel_prizes/peace/laureates/2006/press.html>.

On the other hand, while poor people's lack of collateral hinders them from taking bank loans, they can substitute collateral with past history, group guarantee, and household items in MFI loans. Group guarantee and MFI's community-based approaches often lead to greater chance of repayment. In addition, MFIs often provided non-financial services to clients to increase their chance of success. Moreover, while banks, as private and commercial entities, focus on returns, MFIs work for their social mission, though not necessarily charity organizations.

Currently, a number of MFIs have gone under transformation to be self-sustaining institution by commercialization, especially through taking public deposits. The overall trend includes diversification of services, specialization, providing non-financial services to support client's businesses, and development of new delivery channels.⁵ As the industry grew, movement for banking and interest rate regulation has grown stronger, and mobile banking in rural areas are in development.

Global financial crisis hit the market, but not hard. Amidst the crisis, microfinance has continued to attract investors, in fact more than ever. In 2008, foreign capital invested \$14.6 billion, the majority of which came from private sectors, in microfinance, 24% increase from the previous year.⁶ A number of experts have noticed growth potential in microfinance and expressed concern in possible saturation, especially in India. Concerns include loan delinquency, exchanging mission for profit, and overheated market.

Why should KOICA adopt microfinance?

⁵ Fehmeen. "Trends and Emerging Risks in Microfinance." Microfinance Hub. Feb. 24 2010. Web. March 21 2010 <<http://microfinancehub.com/2010/02/24/trends-and-risks-in-microfinance/>>.

⁶ Evans, Julian. "Microfinance's Midlife Crisis." The Wall Street Journal. 1 March 2010. Web. 15 March 2010. <http://online.wsj.com/article/SB10001424052748703315004575073510472268430.html?mod=googlenews_wsj>.

Though KOICA's budget has steadily grown since its creation, its resources have limits, and KOICA cannot fund all projects. Microfinance gives KOICA more option to fulfill its mission, as well as empowering the poor by giving people access to financial tools to move out of poverty. Just as the common saying, microfinance teaches the poor how to catch the fish, instead of providing free fish. In the long-term, this practice strengthens host communities and nations and builds sustainability, as it is people themselves who pull them out of poverty, and eventually enhances local ownership, which is the focus of KOICA's development efforts.

KOICA's participation will also strengthen MFIs in the region. As much as the industry is thriving, MFIs are always trying to meet the demand, and funding is vital. KOICA's participation not only brings capital from KOICA, the organization and MFIs may be able to draw more capital from other international organizations and private and public sectors, especially from Korean corporations interested in Africa. MFIs may be able to draw something out from KOICA's characteristics and experience to diversify their products and portfolios. In addition, a governmental body embracing microfinance reinforces the industry's legitimacy.

Moreover, engaging in microfinance will deepen economic and diplomatic ties between Korea and host nations, a focus on KOICA activities. As global competition grows fiercer and search for natural resources intensify, Korean corporations' interests in Africa have grows bigger. Development aid is not only a humanitarian act, but also can be an effective PR tool and investment, and recipient countries are likely to view Korea more favorable than non-recipients, As a result, Korea and recipient countries are more likely to enjoy friendly relations in future, and that would facilitate any cooperation or deals.

Ethiopia

Country Context

Ethiopia is a part of East Africa. Among Sub-Saharan Africa, East Africa is considered as a relatively stable region in terms of economic growth and political stability. In 2009, Ethiopia achieved 6.8 real GDP growth rate, the year's 10th highest rate.⁷ For the previous three years, Ethiopia real GDP growth rate exceeded 10%. The country is also one of the most politically and socially stable nations in Africa. In 2009 Political Instability Index, Ethiopia occupied the 117th place, one of the least lowest in the continent.⁸ Transparency is not flawless, yet Ethiopia is one of the least corrupt nations in Africa.⁹ Despite stability, Ethiopia remains a poverty-stricken country. The country's 2009 GDP per capita (PPP) was \$900, and 38.7% of its population lives below poverty line.

Microfinance in Ethiopia

While Africa generally received less attention and funding than Latin America and South Asia, the region recently witnessed the most robust growth in microfinance industry, and Ethiopia is one of more successful. In 2008, total number of borrowers in Africa reached 6.7 million, and gross loan portfolio reached \$3.2 billion,¹⁰ each increasing 30% and 31% from the previous year. East Africa showed robust growth. During the year 2006-2007, the borrowers increased from 2,061,000 to 2,626,000, 28% increase, and loan portfolio from \$ 554 million to \$ 1.025 billion, making 85% increase. In terms of growth rate, Eastern region comes after Southern region, but the market is more than twice larger.

⁷ Ethiopia. CIA – The World Factbook. Web. March 19 2010. <https://www.cia.gov/library/publications/the-world-factbook/geos/et.html>.

⁸ Political Instability Index 2009. Web. March 20 2010.

http://viewswire.eiu.com/site_info.asp?info_name=social_unrest_table&page=loads&rf=0.

⁹ Corruption Perception Index 2009. Web. March 16 2010.

http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table.

¹⁰ Mixmarket. Web. March 28 2010. <http://www.mixmarket.org>.

Ethiopia fares well in African microfinance market, and the industry is fairly developed. 2007 Penetration rate in Ethiopia was 2.0%, third place in the Eastern region, and the 10th place in all Africa, and the number increased. As of 2009, about 27 MFIs were operating in Ethiopia.

Ethiopian government has long acknowledged the impact of microfinance and fully supports the industry. Formal microfinance in Ethiopia started about 1994-5, and the industry has been successful for the past 15 years.¹¹ The Licensing and Supervision of Microfinance Institution Proclamation No.40/1996 has encouraged MFIs and authorized them to accept and mobilize deposits from the general public in order to be sustainable institution.¹² MFIs are legally registered to the National Bank of Ethiopia and are a part of Ethiopian financial industry.

Ethiopia was one of the earliest countries that adopted microfinance regulation, and has since been refining regulatory framework. The Central bank and ministries are actively involving. Government support, national network, and regulatory framework have led to development of MFI in national and regional levels, though mostly focused in Addis Ababa. AEMFI, Association of Ethiopian Microfinance Institutions, was established was established in 1999, and has been active since then.

Current State

Microfinance in Ethiopia is still growing. In 2008, the number of active clients reached 1.9 million, with the total loan of 425.5 million.¹³ Yet the country remains underserved. The number 1.9 million is far less than the country's total population of 85 million. Even Addis Ababa, with 13 operating institutions, has population of 3.4 million. There is room for further growth. In addition, most of existing MFIs provide loans and saving services. Insurance and

¹¹ Gobezie. "Regulating Microfinance in Ethiopia: Making it more Effective." Essays on Regulation and Supervision. April 2005. p. 3.

¹² --- p. 119

¹³ Mixmarket.

remittances remain to be developed. Another advantage includes that Ethiopia is one of the few African nations that have available research capacity, an essential factor in investment and development.

*KOICA in Ethiopia*¹⁴

KOICA currently supports 49 African nations. It chooses its partner nations based on poverty rate, governance, and multidimensional relationships with the Korean government. Until 2009, KOICA's focus has been on ASEAN nations, and the region received over 40% of the total aid. But the organization is planning to increase the aid amount in Africa and Latin America. In 2009, Africa received 19.8% of the total amount, and KOICA plans to increase the percentage to 23.8% in 2010. In sub-Saharan Africa, KOICA's main objective is contributing to the poverty alleviation and achieving MDGs by focusing on health care environments, education, and rural development. Healthcare and education are the top priorities in program.

As country contexts greatly differ from one another, KOICA should start in a nation with which it has had a good working relationship. Of African partner countries, Ethiopia is one of the five priority partner nations, the other four being Nigeria, Senegal, Tanzania, and Egypt. The country has received \$4,193,000, which is 1.8% of total expenditure and 7.7% of the region. Only Egypt and Tanzania come before Ethiopia. KOICA's priority in Ethiopia has been on health sector, followed by education and rural development. KOICA's current projects in Ethiopia include building elementary schools in two regions, supporting family planning and mother-infant health, food technology R&D, and rural development projects. KOICA has also supported a number of Korean NGOs working in Ethiopia.

International Development Agencies Engaged in Microfinance

¹⁴ KOICA

Microfinance has been adopted as a strategic tool for development and poverty alleviation in developing regions. Its main use has been in the women's empowerment and fight against diseases such as HIV/AIDS and /or malaria. Several international organizations and governmental development agencies have already attempted to incorporate microfinance in their macro-development program. The paper looks at eight cases of different development implementing organizations.

*USAID*¹⁵

United States Agency for International Development (USAID), the U.S. federal government agency that administers civilian foreign aid, has employed microfinance in its programs in countries including Haiti, Iraq, and a number of African nations. USAID seeks to empower microenterprises through microfinance, as its strategy for economic development and poverty reduction. . Instead of directly carrying out microfinance operation, USAID supports microfinance through three types of projects: 1) Single-purpose projects provide grants or cooperative agreements to a microfinance institution or network; 2) Umbrella projects with microfinance components are large projects with microfinance as one component; 3) Microfinance-only Umbrella projects are similar to umbrella projects with microfinance components but is only on microfinance, used to support programming at different levels of microfinance.¹⁶

*UNDP and/or UNCDF*¹⁷

United Nations Development Programme (UNDP) promotes the financial development as a part of poverty reduction and support to the private sector. UNDP adapted UNCDF's

¹⁵ USAID. 1 April 2010. <<http://www.usaid.gov/>>.

¹⁶ Miller, Terence. "How Does USAID Support Microfiannce?" Microlinks <http://www.microlinks.org/ev02.php?ID=9811_201&ID2=DO_TOPIC>.

¹⁷ UNCDF and UNDP: Partnerships in Inclusive Finance: UNDP Microfinance Policy. UNCDF 3 April 2010. <http://www.uncdf.org/english/microfinance/undp_policy.php>.

MicroStart model for funding microcredit operations, and the two organizations work closely with each other in design and implementation of microfinance programme. UNDP provides funding, and the project implementation is closely guided by a technical service provider, usually a practitioner from developing countries. When working with a private MFI through grants, Grant Agreement requires presence of local government representation. While the MFI is in charge of microfinance activities, and the local government focuses on removing constraints in financial environment.

MicroStart and MicroSave Africa are two of UNDP microfinance-related programs. A MicroStart project provides technical services to local recipient organizations, usually a three-year partnership with an experienced practitioner, and capital grant.¹⁸ MicroSave Africa, co-financed by UNDP and the British Development for International Development, is designed to strengthen the capacity of financial service providers to secure saving services for poor people in Africa.¹⁹ It was largely involved in consulting, action research, training activities, product development and delivery systems. UNDP is involved through Special Unit for Microfinance that provided technical training and operational guidance.

In the year 2008-2009 UNCDF Global Project Portfolio, the organization reported seven ongoing or complete microcredit related projects in Burkina Faso, Democratic Republic of Congo, Guinea Bissau, Madagascar, Senegal, and Togo. Most projects found partners in local governments or other international organizations such as the World Bank.

World Bank Group

The World Bank has recognized the potential of microfinance in poverty alleviation and even has a webpage solely devoted to microfinance and the Bank's activities. Like the previously

¹⁸ MicroStart Programme. UNCDF. 18 April, 2010. <<http://www.uncdf.org/english/microfinance/microstart/programme.php>>.

¹⁹ MicroSave. UNCDF. 18 April, 2010. <<http://www.uncdf.org/english/microfinance/microsave.php>>.

mentioned UNDP and other governmental development agencies, the Bank supports microfinance through funding local MFI and has become the world's largest microfinance donor.²⁰

Different members of the World Bank Group play different roles in microfinance sector.²¹ International Financial Cooperation (IFC) acts as the World Bank's leading investor in microfinance and reached 130 clients in 2009. It is currently sponsoring BRAC, a leading Bangladeshi MFI, and First Microfinance Bank of Pakistan. The World Bank (IBRD/IDA) provides policy advice and finance governments to support the industry and market development. Some of the World Bank's projects include building the Microfinance Investment Support Facility for Afghanistan (MISFA), an Afghan national microcredit program. The Bank also houses CGAP, the Consultative Group to Assist the Poor, an independent policy and research center working to expand financial accesses for the world's poor.

DfID

The UK Department for International Development has actively participated in microfinance and funded several microfinance programs, often in collaboration with international organizations. DfID established and funded MISFA along with the World Bank. Currently DfID is operating projects in Pakistan and Bangladesh, through funding non-profit organizations.²² In Africa and Afghanistan, DfID's focus is on procurement of financial services. Previously, DfID has supported other developing nations through funding local foundations and organizations.

Norad

²⁰ Microfinance. *The World Bank*, September 2009. 8 April 2010
<<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20433592~menuPK:34480~pagePK:64257043~piPK:437376~theSitePK:4607,00.html>>.

²¹ ---.

²² Project Information. *DFID*, 20 April 2010 <<http://projects.dfid.gov.uk/SearchResults.asp>>.

Norwegian Agency for Development Cooperation (Norad) has previously been working with other developing agencies and international organizations, and the local government in linking microfinance and industry. In 2008, Norad took a distinct step from aforementioned development agencies. Rather than directly engaging in MFI or working with foreign development agencies, Norad became a founding member of Norwegian Microfinance Initiative, a strategic partnership between the Norwegian public and private sectors.²³

The purpose of the NMI was to improve the access to microcredit by combining private sector capital and expertise with public aid capital and professional development expertise. The NMI invests in MFIs in developing nations, as well as providing technical support and other forms of professional assistance. Other signatories include the Norwegian Investment Fund for Developing Countries (Norfund), and the DnB Nor bank, private equity investor Ferd, and insurance companies KLP and Storebrand. NMI has established two funds; the NMI Frontier Fund for smaller, more neglected MFI, and the NMI Global Fund for the more mainstream and established ones.²⁴ While operating on commercial basis, the focus of the initiative is on business development in the host nations.

DANIDA

While there is not much room in Denmark for microfinance activities, the Danish International Development Agency (DANIDA) has supported microfinance activities in Tanzania. DANIDA has taken indirect approach and provide for microfinance in Tanzania by forming partnership with CRDB, a commercial bank that works with various microfinance networks and financial NGOs to disburse loans, provide technical support, and facilitate bank

²³ "Norwegian Microfinance Initiative Created." *Norfund*. 18 April 2010. <http://www.norfund.no/index.php?option=com_content&task=view&id=211&Itemid=37>.

²⁴ Kline, Kenny. "Who's Who in Microfinance: Norwegian Microfinance Initiative (NMI). *MicroCapital.org*. 26 Oct. 2009. 11 April 2010 <<http://www.microcapital.org/whos-who-in-microfinance-norwegian-microfinance-initiative/>>.

accounts.²⁵ With 30% ownership, DANIDA is the largest shareholder of the bank and functions as the primary source of funding.

AFD

The French Development Agency (AFD) has been active in microfinance activities. Recently, AFD signed an agreement with Vietnam and Jordan in 2009. In November, AFD signed an agreement with the Ministry of Finance in Vietnam to loan € 30 million to Vietnamese government microfinance rural development project.²⁶ In Jordan, AFD would provide €7 million to Société Générale Bank of Jordan for funding portfolios of several MFIs.²⁷ Additionally to loans, AFD also provided aid and other local credits funds for the poor to Vietnam.

In addition to one-to-one foreign microfinance aid, AFD has also formed microfinance cooperative ventures. In 2006, AFD established JAIDA, a financial institution that aims to serve Moroccan microfinance sector with funding and support.²⁸ JAIDA was formed in collaboration with Caisse de Dépôt et de Gestion, a Moroccan public financial institution, the French Caisse de Dépôt, a French state-owned financial institution, and KfW Entwicklungsbank or development bank of Germany.

BMZ and KfW

²⁵ Thangada, Goda. "MicroCapital Story: CRDB Microfinance Services Company of Tanzania Reports Pretax Profit of \$192 K." *MicroCapital.org*, 30 June 2009. <<http://www.microcapital.org/microcapital-story-crdb-microfinance-services-company-of-tanzania-reports-pretax-profit-of-192k/>>.

²⁶ Chandrasekhar, Radhika. "MicroCapital.Org Brief: French Development Agency (AFD) Loans \$44.7 m to Vietnam's Ministry of Finance for Rural Development." *MicroCapital.org*, 25 November 2009, 20 April 2010. <<http://www.microcapital.org/microcapitalorg-brief-french-development-agency-afd-loans-447m-to-vietnams-ministry-of-finance-for-rural-development-project/>>.

²⁷ MicroCapital Team. "Jordan: French Development Agency (AFD) to Provide €7 m in Concessional Financing to Microfinance Institutions via Societe Generale Bank of Jordan." *MicroCapital.org*, 18 Oct. 2009, 12 April 2010. <<http://www.microcapital.org/news-wire-jordan-french-development-agency-afd-to-provide-e7m-in-concessional-financing-to-microfinance-institutions-via-societe-generale-bank-of-jordan/>>.

²⁸ Chang, Lori. "KfW Entwicklungsbank of Germany Establishes the Microfinance Fund JAIDA in Morocco." *MicroCapital.org* 22 Dec. 2006, 23 April 2010. <<http://www.microcapitalmonitor.com/cblog/index.php?/archives/555-KfW-Entwicklungsbank-of-Germany-Establishes-the-Microfinance-Fund-JAIDA-in-Morocco.html#extended>>.

German Federal Ministry of Economic Cooperation and Development (BMZ) has two implementing organizations, KfW Entwicklungsbank and DEG, which specialize in financial cooperation, such as granting loans to MFIs.²⁹ Other organizations, GTZ and DED, support the establishment and expansion of MFIs, provide microfinance training workshops, and advise local governments on legal framework.

Of all BMZ's components, KfW is the one that is responsible for financial cooperation and has been the most active member in using microfinance in socioeconomic development around the world. It is one of the largest microfinance donors in the world. As of April 2010, KfW is supporting over 100 microfinance projects that target over 14 million people around 60 developing countries.³⁰ As the end of 2007, KfW's project portfolio reached € 800 million, two third of which KfW raised by its own. Soon after the global financial crisis broke out, KfW launched the world's largest fund for microfinancing with the IFC, in January 2009.³¹ The fund has volume of \$500 million and aims to support MFIs by assuring their ability to lend despite the financial crisis. The refinancing facility was the joint cooperation of the German Government and the World Bank.

KfW takes additional various complementary approaches.³² KfW occasionally establishes a new MFI that focuses on target group and invests on its own risk. These microbanks have been largely successful Latin America and Eastern Europe, but KfW is also increasing support in Sub-

²⁹ Promoting the Financial System. Federal Ministry for Economic Cooperation and Development. 15 April 2010. <http://www.bmz.de/en/issues/wirtschaft/nachhaltige_wirtschaftsentwicklung/finanzsystementwicklung/index.html>.

³⁰ "KfW Entwicklungsbank and IFC launch cross-border fund to boost lending to microentrepreneurs in developing and transition countries." KfW Bankengruppe. 18 April 2010. <http://www.kfw.de/EN_Home/Presse/PressArchiv/2008/20081222.jsp>

³¹ ---.

³² Microfinance in the Service of Poverty Reduction. KfW Entwicklungsbank. Frankfurt, February 2007. Web. April 22 2010. <http://www.kfw-entwicklungsbank.de/DE_Home/Sektoren/Finanzsystementwicklung/Sachinformationen_1/KfW_Mikrofinance.pdf>.

Saharan Africa. Microfinance networks ACCION and FINCA have received KfW's support and are serving a large number of clients in Africa and Latin America. KfW also empowers financial NGOs or unlicensed MFIs with capacity-building program and loans and eventually assist their transformation into self-sustaining, deposit-taking financial institutions. KfW also encourages local commercial banks to offer microloans through supporting them with credit lines in local and foreign currencies and staff capacity-building. In addition, KfW has been actively linking MFIs with international financial markets, along with other development implementing agencies such as UNDP. Aforementioned ZAIDA is one of many examples.

KfW's solid performance received positive reviews from CGAP.³³ In comparison with other donor and implementing agencies, CGAP credited KfW for: 1) recognizing microfinance as an integral part of financial sector development; 2) consistent implementation of international good practice standards; and 3) highly qualified staff and a wide variety of microfinance support mechanisms.

Findings

All agencies have taken different approaches in microfinance. Funding local MFIs is the most common approach that all eight agencies have taken, but while some, such as DANIDA and AFD, indirectly fund the MFIs through other channel, such as banks and funds, others, such as IFC, directly engage with the target MFIs and are deeply involved in their activities. Many agencies go beyond merely funding and provide technical support and other forms of assistance, and KfW presents the best example. In addition, several of these agencies formed alliances to serve the clients better. JAIDA is only one example, and in 2005, USAID, Deutsche Bank, and DfID established Deutsche Bank Global Commercial Microfinance Consortium to create and

³³ ---. p 2.

expand linkages between the microfinance sector and domestic and international capital market.³⁴ USAID provided a loan guarantee, while the other two provided equity funding.

The comparisons present several possible paths for KOICA in incorporating microfinance in its program. As KOICA has little experience in microfinance, it would be inefficient for KOICA to suddenly add microfinance in its aid themes. At least initially, it will be much better to follow the other organizations and support local MFIs that meet KOICA's goals and share similar vision through funding, technical support, and other forms of assistance. As there are a number of MFIs in Ethiopia and far bigger demand, it would not be hard for KOICA to find a willing partner and provide funding. Once the program in Ethiopia proves to be successful, KOICA may expand to other Sub-Saharan nations, preferably Tanzania, as KOICA has been active in the country, and it is another East African nation like Ethiopia. Yet considering the whole process of development, implementation and assessment, the project is likely be a long-term, and more likely candidate may arise.

Yet the writer recommends KOICA to go beyond mere funding and technical assistance, to designing products that can reinforce KOICA's aid theme in Ethiopia: health and education. The picture is feasible, as a number of MFIs have already incorporated development theme in their products and reported success.

Developing partnership with other development agencies is highly recommended, as several agencies have done. Partnership with UNDP would be possible, as KOICA's mission in Sub-Saharan Africa is achieving UN MDGs as well, and UNDP is KOICA's largest multilateral partner and has been actively involved in microfinance projects in Africa. UNDP is observing

³⁴ "Alliance Models in Microfinance and Microenterprise: What Works?" USAID, 20 April 2010 <http://www.usaid.gov/our_work/global_partnerships/gda/micro_guide/micro1.html>.

positive impacts, and would certainly welcome additional resources and expansion of program, in conjunction with KOICA.

SWOT Analyses of KOICA in Microfinance

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> - Staff has expertise and KOICA is well-established in the region. - May be easier to get government cooperation - KOICA already has working relationship with UNDP 	<ul style="list-style-type: none"> - Lack of experience in microfinance. - External and Internal funding resources are limited. 	<ul style="list-style-type: none"> - Microfinance is attracting more attention as a tool for poverty alleviation and UN MDGs. - Private investors are looking into microfinance - Demand is robust 	<ul style="list-style-type: none"> - Impact of microfinance is not without controversy. - Ensuring long-term implementation

Microfinance in Development Program

Health

KOICA's health aid projects include building hospitals, technical assistance and research for the prevention of HIV/AIDS and other disease, and improvement of public health services. KOICA also assisted expansion of health care plan, including mother-infant health care project and family planning.³⁵ Microfinance can come with basic health education and health insurance.

Several MFIs in Africa have already tried a number of methods that serve health care, and Freedom from Hunger has been a success case. Freedom from Hunger delivered health education alongside loans, and its *Credit with Education* program combines microfinance and women's education.³⁶ Lending policies include group-based lending and mandatory deposit, and a local staff person provides learning sessions during regular meetings. As those women are largely illiterate, the sessions are processed through dialogue and visual aid. The sessions'

³⁵ KOICA

³⁶ *Credit with Education. Freedom from Hunger*. 11 April 2010.
<<http://www.freedomfromhunger.org/programs/cwe.php>>.

contents are health education-oriented, scientifically proven impact, health, nutrition, family planning, and other vital and useful information.

The same organization also has Microfinance and Health Protection (MAHP) program.³⁷ MAHP builds on *Credit with Education*, and women who participate in *Credit* program come together in certain time, usually community-wide meetings, and engage in learning sessions. Also, MAHP offers financial products and other services to improve access to health care services and medicines. The services include regular check-up, health loans and savings, linkages to health care providers, microinsurance, and linkages to health product providers.

Several MFIs are providing malaria education in partnership with pharmaceutical companies. In some West African countries where malaria is prevalent, Freedom partnered with Glaxo Smith Kline and included malaria education in *Credit* program.³⁸ Freedom is not the only MFI that witnessed positive result with malaria education. PlaNet Finance, a Paris-based international NGO, also worked with Sanofi-Aventis, a global pharmaceutical company, to develop anti-malaria microfinance programs.³⁹ The programs included the use of insecticide-treated bed nets and were carried in Benin and Madagascar.

Water

Access to water supply and sanitation in Ethiopia is one of the lowest in the world. KOICA has been developing water resources in Tigray Region, Ethiopia. As water is essential in survival, access to safe water is an important issue in the rest of developing world, and several entities have made attempts to use microfinance for water services.

³⁷ Microfinance and Health Protection. Freedom from Hunger. 11 April 2010. <<http://www.freedomfromhunger.org/programs/mahp.php>>.

³⁸ "Alliance Models"

³⁹ "Combating Malaria through Microfinance." Microfinance Focus. 20 April 2010. 22 April 2010. <<http://www.microfinancefocus.com/news/2010/04/20/combating-malaria-through-microfinance/>>.

USAID's Environmental Services Program cooperated with local banks and local branches of utility company to develop microfinance project for water services in Indonesia.⁴⁰ Through partnership with ESP, banks provided two-year microloans for household piped water connection, and the utility company provided a guarantee to the bank that the loans will be paid back in timely manner. WaterCredit Initiative by Water Partners International follows a similar approach.⁴¹ The initiative provides small loans to communities and individuals without access to credit so that they may finance the cost of water and sanitation systems. The loans are typically disbursed through local MFIs. Water Credit Initiative has operated in developing countries including India, Kenya, and Bangladesh, and nearly \$ 1.6 million in WaterCredit loans were disbursed.

Education

Expanding primary education is KOICA's goal for education aid in Sub-Saharan Africa, and the organization has built several schools in various countries. Yet merely building schools does not solve the problem. The problem is not only the lack of school, but also the poverty. Because of poverty, people often lack money to send children to school, and even worse, household poverty often demands for child labor for income, and children have to work instead of getting education. The phenomenon is more common with girls.

A number of MFIs tried to respond to the situation and designed products for educational purpose. The poor people may get special microloans to send the children to school. Some savings products are also designed for education so that clients can set aside money for school

⁴⁰ "Alliance Models."

⁴¹ WaterCredit, 2009. 11 April 2010. <<http://watercredit.org/>>.

cost. Other attempts include requiring clients to participate in education program and establishing scholarship fund.⁴²

BRAC, an aforementioned leading Bangladeshi MFI that works in partnership with the World Bank, has a distinct approach; the MFI actually is running non-formal educational systems in villages.⁴³ The program offers different types of education: education equivalent of formal primary education, basic literacy and numbers, and some vocational training.

Recommendations

As KOICA has no experience in microfinance, it should start with funding and possibly designing and implementing microfinance-socioeconomic development program with partner MFIs. Direct microloans and other microfinance services will be administered by established local MFIs. Microfinance-development programs will focus on health, education, and water, and this way, KOICA will be able to utilize its experience and expertise in developing the program.

In addition to funding and providing assistance, KOICA can contribute to microfinance and ease its burden by establishing fund, as a number of other development agencies have done. It may establish funds with other development agencies, such as KfW, private sector, or even the host governments.

Moreover, KOICA should collaborate with other entities, from non-profit organizations to international organizations, from developing projects to investment. If none else, UNDP may be the easiest to approach, as KOICA has already cooperated with UNDP during its operations in Africa.

Health

⁴² Khumawala, Saleha B. "A Model for Microfinance-Supported Education Programs." *Decision Line*. Jan. 2009. p 10-14.

⁴³ Education. *BRAC*. 8 April 2010. <<http://www.brac.net/index.php?nid=120>>.

Providing funds and technical supports to local MFIs in regard to health would help achieving health care. Traditional approaches, such as providing health products including insurance, health education, microloans to health care providers and linkage with medical service, would be beneficial in achieving KOICA's goal of improving health environment. KOICA's staff or other members from the organization may be able to participate in health care service part in microfinance operation.

Incorporating microfinance with mutual health organizations (MHO) may be an option. MHOs are community-based voluntary organizations that provide their members health insurance services and are rapidly growing in western Africa. Just as group-lending method in microfinance functions based on trust and relationships, MHOs are not for profit but are based on social cohesion and ethical principles.⁴⁴ The government of Ghana was the first to recognize the potential of MHOs as a solution to health system problems and set up MHOs in every district in Ghana, yet the plan could not overcome the challenges of financial burden, and enrollment dropped.⁴⁵ The Malian government included MHOs in its 10-year social sector development plan.⁴⁶

While no study has established definite impact of MHOs, studies did observe positive relationship between MHOs and members' use of health service, and the demand for MHOs grow stronger. Funding these MHOs may prove to be valuable supplement in KOICA's health projects in Ethiopia.

Education

⁴⁴ Franco, Lynne Miller et al. "Effects of mutual health organizations on use of priority health-care services in urban and rural Mali: a case-control study." *Bulletin of World Health Organization*. 86.11(2008): 830-38.

⁴⁵ Special Article. "Microfinance: An Alternative Means of Healthcare Financing for the Poor." *Ghana Medical Journal*. 41.4 (2007): 193-94.

⁴⁶ Franco.

A number of studies have reported that families with access to credit are more likely to send children to school. In 2003, FINCA released assessment of its microfinance impact in eleven countries and reported that children of microfinance clients have more chances of getting education than children of non-clients; 94% of clients' children went to primary school versus 87% of non-clients, and 46% of clients' children went to secondary school while only 39% of non-clients' children did.⁴⁷ KOICA should

In addition, KOICA can adapt BRAC's example and carry out non-formal education. The biggest obstacles would be high costs of training teachers and establishing schools with proper facilities. However, KOICA already have been engaged in building elementary schools in Ethiopia and may be able to deal with the latter problem. With proper negotiation with the Ethiopian government and enough amount of funding, KOICA may build schools with education programs in mind from the early stage. KOICA's current focus on education projects in Africa is on primary education. In the long term, vocational and professional educational system might be good additions and can be developed with the ICT.

Water

The paper recommends KOICA to adapt microfinance in developing access to safe water. KOICA has already been working on water resources development for some time and must have established certain relationships with utility companies. KOICA's presence would prove beneficial not only for funding but also because KOICA may be able to use its existing partnership with utility companies and related parties in developing for the better and efficient outcome, in developing and implementing the project.

⁴⁷ Hatch, John, and Patrick Crompton. "FINCA Client Assessment – 2003." Web. Washington DC: FINCA, 2004. p 25.

Once gained substantial experience, KOICA may choose to directly participate in microfinance operation, but this paper does not recommend that path. The writer believes that KOICA is more opt to focus on current development aid projects and contribute more by providing technical and other professional consultative and research assistances as KfW has done, instead of directly operating microfinance services.

Roles for the Business Sectors

An increasing number of Korean corporations are penetrating into African market. The businesses vary from infrastructure construction to outsourcing to resource management. KOICA may be able to win these companies for funding and possible technical and other assistance. Though generally Korean economic players are esteemed highly for their performances, several Korean corporations, most recently Daewoo International in Madagascar, have been severely criticized for lack of consideration for the local people which resulted in major conflict. KOICA

Several giant corporations have accepted microfinance as an effective PR tool. In addition, microfinance may be used for Corporate Social Responsibility. Financial corporations, including Citigroup, usually have options on how to participate, from mere donation to developing a new product for microfinance purpose yet other types of companies can participate as well.

The most common participation method will be through funding. Companies may donate money to MFIs for microfinance project creation or establish an investment fund, as Norwegian private sectors formed the NMI. Or firms may work directly with MFI and take more direct advantage of the project. During the Baku-Tbilisi-Ceyhan (BTC) pipeline construction, BP Pipelines worked with FINCA to provide microcredit to small businesses along the pipeline

route.⁴⁸ Such action of providing microcredit to host community would be a CSR method and good PR.

Challenges

The 2008 Audit Report of USAID's Microfinance Report Activities concluded that USAID's microfinance activities in three countries failed to implement efficiently.⁴⁹ Recommendations include strengthening management controls and issuing microfinance guidance for monitoring activities and assessing performances, and the recommendations will apply to KOICA's microfinance operation too. As a donor and/or investor, KOICA needs to pay close and consistent attention on what is taking place, and Ethiopian government should play leadership roles and demonstrate commitment in supporting education/health project. MFIs qualification is vital in the program's success. In choosing which MFI to work with, KOICA must ensure that the selected MFIs are competent in administering and managing the money and program.

Conclusion

Microfinance is being welcomed as an effective tool for poverty alleviation and development. A number of government development agencies and MFIs have implemented microfinance in development projects. Several of them have reported success, and this paper recommends KOICA to employ microfinance as supplement for the organization's health, education, and water projects in Ethiopia. KOICA can start from simply providing funding to the selected MFIs to designing and implementing projects, establishing investment fund, and

⁴⁸ Hopkins, Michael. Corporate Social Responsibility & International Development: Is Business the Solution? Sterling: Earthscan, 2007. p. 205.

⁴⁹ Audit of USAID's Microfinance Activities. Audit Report No. 9-000-09-003-P. Office of Inspector General. 4 December 2008. Web. http://pdf.usaid.gov/pdf_docs/PDACN084.pdf.

forming strategic partnerships with other international entities, host government, and private sectors.

Successful incorporation of microfinance would take time to implement and even longer to make assessment, yet once successful, the projects will empower the poor by giving access to financial tools as well as health care and education and enable them to break the chain of poverty for better future, and KOICA will deepen closer partnerships with stakeholders. The focus of KOICA will be all met; promoting sustainable development, strengthening partnerships with developing countries, and enhancing the local ownership of beneficiaries, and KOICA will start another path to “make a better world together.”