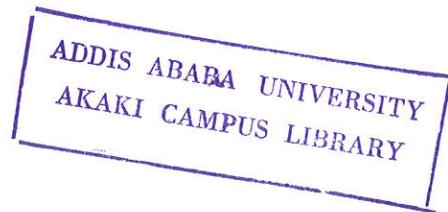


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**Addis Ababa University
School of Graduate Studies
College of Development Studies
Center of Regional and Local Development Studies**

**The Role of Addis Credit and Saving Institution in Urban
Poverty Reduction: the case of woreda one of Yeka sub city,
Addis Ababa**



**By
Mesfin Wubie**

November, 2012

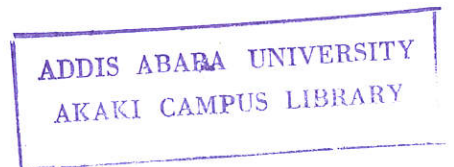
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**A Thesis Submitted to Center of Regional and Local Development
Studies of Addis Ababa University in Partial Fulfillment of the
Requirements for the Degree of Master of Arts in Regional and Local
Development Studies**

By Mesfin Wubie




Approved by Board of Examiners

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List of Abbreviations

AIDS	Acquired Immune Deficiency Syndrome
AdCSI	Addis Credit and Saving Institution
CSA	Central Statistics Agency
CBOs	Community Based Organizations
CGAP	Consultancy Group to Assist the Poorest
IDA	International Development Association
IEEG	Income Enhancement and Employment Generation
IOM	International Organization for Migration
MCI	Micro Credit Institutions
MF	Microfinance
MFI	Micro Finance Institution
MI	Micro Credit
MoFED	Ministry of Finance and Economics Development
MSEs	Micro and Small Enterprises
MWUD	Ministry of Work and Urban Development
NGO	Non-Governmental Organization
ORAAMP	Office of Revision of Addis Ababa Master Plan
SSGs	Small Scale Enterprises
UN	United Nation

Abstract

The major purpose of this study is to assess the role of Addis Credit and Saving Institution in urban poverty reduction. Poverty is widely prevalent problem in urban and rural area of Ethiopia. Hence the government of Ethiopia took microfinance institutions as one of the solutions so as to reduce the level of poverty in the country and issued the first microfinance legislation in 1996 (proclamation 40/96). AdCSI is one of the 27 microfinance institutions that have been operating in Ethiopia. There is no a research specifically done on the role of Addis Credit and Saving Institution in urban poverty reduction. Thus, this gap initiated the researcher to conduct study on the role of AdCSI in urban poverty reduction. Descriptive survey method was employed to conduct the research. To gather data for the study questionnaire, interview, focus group discussion and life history have been applied. Systematic random sampling method was used to select sample respondents. From the total population of 1,610 clients a sample size of 310 was selected using Krejcie and Morgan formula and questionnaires were distributed. Data obtained through the questionnaire have been analyzed with descriptive statistics (mean and frequency). Moreover the data obtained using the interview and focus group discussion have been analyzed qualitatively. The study revealed that Addis Credit and Saving Institution has not properly outreached the poorest of the poor segment of the society. But improvements are observed more on the upper poor (who used to earn above \$ 1.25 per day) in income, employment opportunity creation, medical facilities, educational facilities, expenditure, gender empowerment and savings. However, improvement relating to housing condition is less compared to other effects. In general the respondent clients have observed positive change following their microfinance use in all aspects. But there is much untapped potential for improvement in these respects beyond what has been achieved so far. The institution should also revise its client selection criteria so as to outreach more to the real destitute. In addition, it should attempt to solve obstacles that prohibit borrowers from taking enough amount of loan size to run their business properly.

Chapter one

1.1 Introduction

Poverty is one of the bottlenecks of development and at the same time alleviation of poverty is recently recognized as the primary objective that the development process shall pursue, especially in developing countries. More than one billion people live on less than a dollar a day in the world and such a higher level is partly ascribed to the increase of poverty in the last generation (Jack, 2006). Hence, eradicating or at least reducing poverty has become a crucial and complex concern of the developing countries.

Ethiopia, which is ranked 200th out of 206 countries on human development index according to the World Bank, is one of the poorest nations in the world. Poverty is a deep-rooted phenomenon in the country and is reflected in a range of well-being measures. For instance, life expectancy at birth is 51.8 years; it is significantly lower than the average of developing countries which is 54.5 years. The population with improved sanitation facilities is only 13 percent, the second lowest under the group of lower human development index. It is also only about the fifth of the population who have access to improved water sources, a very marginal proportion even as compared to the Sub-Saharan Africa's average 55 % (Netsanet, 2009).

Even though different empirical findings indicate that the urban dwellers enjoy a relatively better quality of life than their rural counterparts, urban poverty is also one of the biggest challenges of Ethiopia. Factors that include migration, overcrowded living conditions, social fragmentation, crime and violence, aggravate the poverty situation in the urban areas. Addis Ababa like the other urban centers, share the same underlying situations. Relative to other urban areas, however, the capital city also benefits a higher concentration of facilities, infrastructure and industries, which have made the city a main destination for migrants from both rural and other urban areas. This in turn aggravates the problem of poverty to live in the metropolis and a significant proportion of its dwellers and believed to live in poverty. A study by Mekonene (1999) that estimated that the level

of poverty in the capital to be 51.4 percent in 1997. According to MoFED (2002), on the other hand the poor accounted for 36.1 percent of the capital's population in 1999/00 (Mekonen, 1999).

Addis Ababa has been the largest and most populous city in Ethiopia being more than 14 times bigger than that of the second largest city Dire-Dawa in the country (MWUD, 2006). It contains about 25% of the total urban population. However, Addis Ababa is one of the largest developed cities in Africa facing the major challenge of urban poverty and slum proliferation (Haregewoin, 2007). Like any other major cities of Africa, Addis Ababa presently suffering a host of social and economic problems including widening income disparity, deepening poverty, rising unemployment, severe housing shortage, poorly developed physical and social infrastructure and the proliferation of slum and squatter settlements (UN-HABITAT, 2007). Addis Ababa is growing at a rate of over five percent a year. Rapid urbanization has been accompanied by growing numbers of poor people and a parallel increase in the social and economic needs of local communities. Unemployment remains high whilst nearly half the population earns less than what is needed to buy enough food for basic subsistence. One fifth of the city's population has no access to safe water while many people lack adequate toilet facilities and waste disposal systems (Gebremedihin, 2006). It is also the major destination of the rapid rural migration, which has exacerbated the unemployment problem (Berhanu L., 1999). The total unemployed labor force of Addis Ababa in 2005 was estimated to be 325,975 out of these, 200,606 were females and 125,369 males (CSA 2005 cited in BOFED, 2006). The total unemployment rate for Addis Ababa was close to 29.9 percent, which was severed among females, 38 % and males 22% (Ibid).

Different studies indicate that the economy of the city is service sector dominant and privately owned; especially the informal economic activity has a greater contribution. Thus, 80% of the city's dwellers earn very low income of less than 74.5 USD per month (ORAAMP, 2002). On top of this, according to Bihon, the high unemployment rate of the city that is more than 40% aggravates the poverty situation of the residents. Hence, most of the households spent more than 50% of their income on food (Bihon, 2006).

The belief that still widely held is, one of the most important constraints on the well being of the urban poor in LDCs is lack of access to cheap institutional credit and saving service (Tsegaye, 2008). In these nations, where informal financial sectors have a long history, urban indebtedness from private moneylenders is common. However, there are formal financial institutions such as the commercial bank and development banks, which provide credit. Nevertheless, the formal banking sector has usually avoided lending to the poor because supposed difficulties in collection and lack of collateral (Tsegaye, 2008).

In its effort to fight against urban and rural areas, the government of Ethiopia recognized micro finance service as one of the major poverty reduction strategies and set a legal framework for the establishment and operation of Micro Credit Institutions (MCIs) to provide financial service to micro and small enterprises (MSEs) and poor rural and urban households.

Currently there are 27 licensed MCIs operating in Ethiopia (Wolday, 2008). Among these Addis Credit and Saving Institution is one of them, which operates in the boundary of Addis Ababa city administration.

Hence the paper has been prepared to discuss some aspects of AdCSI related to its contribution in poverty alleviation and how the urban poor are responding to those institutions practicing recently. In addition, it is also appropriate and useful to critically examine whether AdCSI meet the demand for finance by urban poor, and whether the existing service have features that adequately help the poor to come out from poverty, and meet the preference of the urban borrowers and savers.

1.2 Statement of the problem

Today, countries of the world have converged their agenda up on the importance of poverty reduction as the corner stone of all development efforts. Of the various ways,

providing the poor with access to financial service is usually viewed in terms of its ability to help people to escape from poverty (Webster and Fidler, 1996).

In many low income countries, however, the prevailing operation of the formal financial institutions is inefficient to provide sustainable credit facilities to the poor. Hence, micro finance programs have been developed. Their purpose is to help the poor to become self-employed and thus escape poverty (Khandker, 1998).

In Ethiopia, the major categories of the urban poor are those individuals and households in the informal sector whose incomes are insufficient to provide basic needs (Bekele, 1996). Despite its capacity of absorbing the increasing number of the urban poor, the informal sector faces such constraints as restrictive government policies, lack of development assistance, and inadequate access to credit. Most of the requirements demanded by formal financial institutions for the purpose of lending are beyond the means of the informal sectors and hence limit their access to easy credit facilities. To overcome those limitations of the informal sector, therefore, the need to develop strategies and programs of intervention to mobilize resources to develop the informal sector, to improve its efficiency and promote employment generation has become very urgent.

In so doing, the delivery of micro finance services has been considered as one of the policy instruments of the Government and Non-Government Organizations (NGOs) to enable the rural and urban poor increase their productivity, induce them to adopt new technologies, improve their input supply, increase their income, reduce poverty and attain food security (Bekele, 1996; Solomon, 1996; Befkadu and Berhanu, 1999; Wolday, 2000).

The establishment of sustainable micro finance institutions that reach a large number of rural and urban poor who are not served by formal financial institutions has been a prime component of the new development strategy of Ethiopia. Micro finance has been applied in various ways, by different bodies, in Ethiopia with the ultimate objective of poverty

reduction. The poor participate in micro finance programs in the expectation that borrowing increases their income and sustain self-employment. Whether micro finance does, in fact, reduce poverty in terms of consumption, income and employment on sustained base, therefore, needs an impact analysis. Impact analysis helps to identify areas of improvement and gives us an indication whether micro finance achieves its objectives. Assessment of the program thus requires analysis of how the program has been effective at reducing poverty. This requires studying changes in terms of household welfare, including changes in per capita consumption, households net worth, schooling of male and female children, access to medical facilities (Khandker, 1998). Impact analysis of micro finance also needs to look at the effect of micro finance on different groups particularly women. Whether women have benefited from the program becomes an important component of this study because women are believed to be the prime target of micro finance assistance. Micro credit therefore is recognized by the governments and NGOs as one of effective tools to fight against poverty in Addis Ababa by providing financial services to those who do not have access to or neglected by the commercial banks and financial institutions. It is believed that it helps in reducing poverty by providing the poor with credit facility to start a small business and create employment opportunities. It is also regarded as a tool for supporting the economic and social condition of the poor and women by allowing access to education and health facilities and improves their living standards sustainability. Contribution of microfinance (MF) is indispensable for poverty reduction. However there is no research specifically done on the role of AdCSI in urban poverty reduction.

Hence this gap initiated the researcher to undergo study on the role of Addis Credit and Saving Institution in urban poverty reduction.

1.3 Objectives of the Study

The general objective of this research is to investigate the role of Addis Credit and Saving Institution in urban poverty reduction in Addis Ababa.

1.3.1 Specific objective

The specific objectives of this research are:

- to investigate the targeted urban poor become beneficiary from the service provision of the institution.
- to identify either women or men benefit more from AdCSI micro credit program.
- to assess the opportunities and the challenges clients face to get loan .
- to investigate customers response to the interest rate charged and the loan size of the institution.
- to assess that the borrowers utilize the credit to the targeted purpose.
- to assess that AdCSI helps clients in employment opportunity creation and in income generation to meet their needs.

1.4 Research Questions

The study attempted to answer the following questions:

1. Does AdCSI credit program really target the urban poor?
2. Are they women or men that are more beneficiaries from the service provision of the institution?
3. What are the opportunities and the challenges that the clients face to get loan?
4. How do clients respond to the interest rate charged and the loan size of the institution?
5. Do borrowers use the loan for the targeted purpose and use it for the betterment of their life?
6. To what extent does the AdCSI micro credit program helps customers to create job opportunities, to generate income and meet their needs?

1.5 Scope of the study

Micro-finance covers a wide range of issues like economics, politics, social, psychological, culture etc. But the concern of this paper was more on the economic aspect. The other areas were also treated to some extent because they can have a tremendous impact on poverty rationale. Even though there are many government and privately owned micro-finance institutions, this research is focused on AdCSI. AdCSI has been giving its service in all sub cities of Addis Ababa since January 2000 G.C but this Paper is limited its scope to Woreda one of Yeka sub city by taking only the current clients of the institution as a sample. The research was limited on 2003 E.C budget year practice of the institution because it was so wide to investigate AdCSI'S practice since its establishment (2000 G.E),

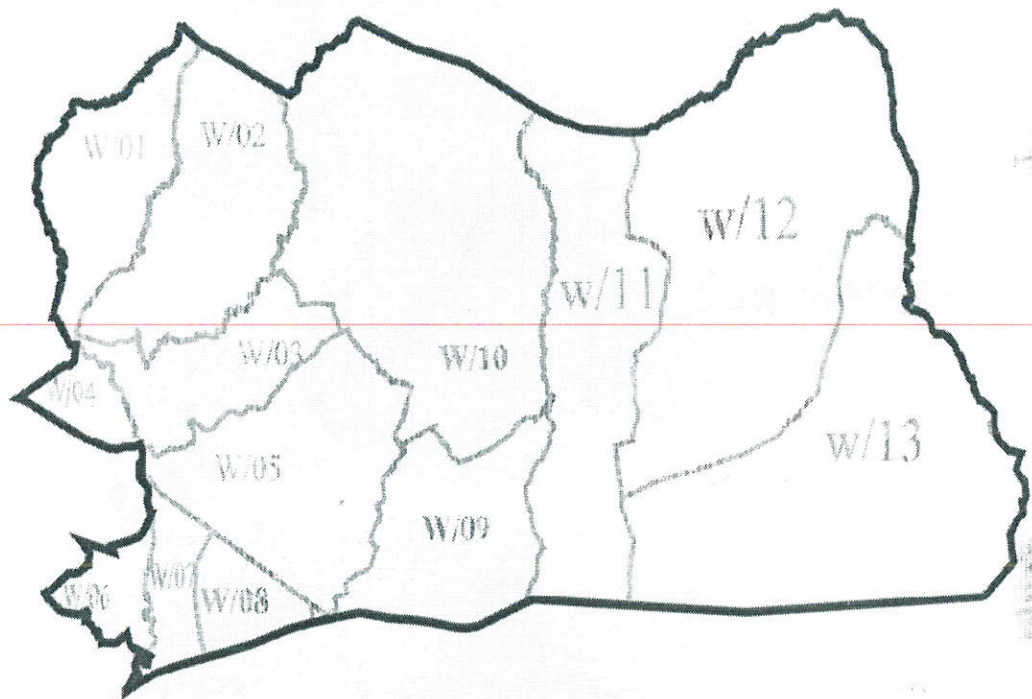
1.6 Limitation of the Study

The main limitations of the study were reluctant and lack of willingness of respondents to complete and return the questionnaires on time, unavailability of heads of the offices for interview on appointment date due to various field work, meetings, and missing of some questionnaires due to carelessness the of respondents. However, through serious follow-ups and exerting much effort, many of the questionnaires were collected.

1.7 Significance of the Study

It is believed that this study gives practical picture of the efforts that have been made by AdCSI as MCIs in beneficiating the poor by reducing poverty in Addis Ababa. This study may also help AdCSI to evaluate its contribution towards the poverty alleviation and revise its programs. In addition, it may also contribute to the existing literature of MC in the field of the development studies.

1.8 Brief description of the Study area



Source: (<http://www.addisababacity.gov.et/>)

Figure 1.8 Map of Yeka sub city

Yeka is one of the ten sub cities of Addis Ababa city administration. It was established according to Proclamation NO.1/1995 of Addis Ababa city administration. The total area of the sub city is 85.98 Square kilometer. It is the third widest sub city and borders with Oromiya regional state to the east and north, Bole sub city to the south, Kirkos sub city to the west and Arada sub city to North West. The total population of the city is 368,418 out of which 196,746 are women and the rest 171,672 are males. It comprises 13 woredas and the population density per square kilometer is 4,284.9. In the sub city there are 6 governmental and 10 private secondary schools. In addition, 5 technical and vocational institutes are found. The sub city is also the location of one governmental and six private colleges (Addis Ababa city administration office of communication affairs, 2011). Yeka sub city has also tourist attractions. There are 50 ancient houses, 5 churches, 5 historical

places, and 3 historical caves among them Tekelehaimanote washa is one which was built around 320 A.C.

1.9 Organization of the thesis

The paper is organized in to five chapters. The first chapter highlights background of the study, statement of the problem, objectives of the study, scope of the study, significance of the study and brief description of the study area. In the second chapter theoretical and empirical literatures and analytical frame work are presented. Chapter three addresses research design and methods. It explains the methods, approaches, procedures and instrument that were used to achieve the purpose of the study. The forth chapter the main body of the paper focuses on presentation, analysis and interpretation of data. Finally, the fifth chapter deals with conclusion and recommendation based on the findings.

Chapter Two

Review of the literature on poverty and microfinance

2.1 Theoretical Literature Review

2.1.1 Concept and definition of poverty

There is no universal and an all time definition and concept of poverty. Different writers define poverty in different approaches and terms. Some researchers have defined the poor as the proportion that is unable to meet the basic nutritional needs. Others viewed poverty as a function of education and /or health using the measurement of life expectancy, child mortality, etc. Levels of expenditure and consumption are other criteria used to identify the poor.

The World Bank in its 2000/01 report defined poverty as a lack of money, lack of adequate food, shelter, education and health; and the poor are vulnerable to ill health, economic dislocation and natural disaster (Befekadu, 2008).

Rajasekhar, (1994) also defined poverty as a multi dimensional phenomenon that encompasses not simply low-income, but also lack of assets, skills, resources, opportunities, services, and the power to influence decisions that affect an individual's life.

As we understand from the above definitions, poverty doesn't have a standardized definition in nature. It is possible to say that poverty is a multi dimensional aspect. It involves income, asset, skill, freedom, resource, social exclusion, gender, race, ethnicity, etc. the complexity and multi dimensional nature makes it a challenge to measure its extent and to put its panacea. In most literatures, for the sake of simplicity, poverty is defined and measured based on income. The threshold used to classify the poor is US\$ 1 per day, i.e people who get income below US\$ 1 are labeled absolutely poor. Based on this classification, World Bank reports indicate that 1.2 billion people were living in extreme poverty in 2003 (Maes, 2006). Most of less developed nations are characterized

as having more than half of their population living in poverty. This is the ground on which many practitioners, writers, donors, politicians, and economists are dealing with poverty and its panacea. Microfinance is one, if not the only, important tool in the poverty eradication.

2.1.2 What is Microfinance?

The term microfinance refers to small-scale financial services-primarily credit and saving provided to people who farm or fish or herd; who operate small enterprises where goods are provided, recycled, repaired or sold; who provided services, who work for wages or commissions, who gain income from renting out small amount of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local level of developing countries both urban and rural (Robinson, 2001).

Dejene, (2001) defined microfinance based on its main characteristics; it is targeting of the poor, promoting small business, building capacity of the poor, expending small loans without collaterals, combing credit saving, and charging commercial interest rates.

Ledgerwood, (2002) has also defined microfinance as a term that refers to the provision of financial services to low income clients, including the self employed. Some microfinance institutions (MFIs) also provide insurance and payment services. Moreover, MFIs also provide social intermediation and social services. Thus, according to Legerwood, microfinance often includes both financial and social intermediation. It is not simple banking but a development as well.

In general, many writers associate microfinance with the provision of small loans to the poor. Both the product (loan) and the market (the poor) fall within the purview of microfinance, but they are more its origins than its present and future. It is understood that the microfinance industry developed from a history of microcredit programs, but has grown to cover a broad range of social service and intermediation. Many also speak in more general terms of formal financial system: reaching those excluded from formal

financial services not just due to lack of wealth, but also social, cultural and gender barriers. Effective microfinance is positioned to overcome a variety of access barriers to a wide range of financial services for the variety of customers who are excluded from financial system.

2.1.3 Products and Services of microfinance

Micro finance institutions can offer their clients a variety of products and services; first and foremost are financial services such as credit, saving, and insurance. Microfinance institutions cannot operate like most formal financial institutions because the nature of their target clients are poor men and women without tangible assets that can be taken as collateral. Factors such as too small amount of loan requirement for businesses, lack of information about clients, too far to visit clients etc make formal financial institutions less attracted to invest on tiny informal businesses. This implies that low income men and women face formidable barriers in access to formal financial institution. The involvement of MIF is to fill the gap created by poverty, illiteracy, gender and remoteness (Bennett cited in Ledgerwood, 2002).

Within the framework of microfinance institution there are three broad categories of services that can be provided to clients. These are financial intermediation, social intermediation, and social services, but it is not a blueprint that all MFIs should offer all four categories of services to their clients. That is, one can offer one service, or multiple services depending on its objectives and its capacity to manage every activity.

2.1.3.1 Financial Intermediation

The primary role of MFIs is to provide financial intermediation that involves the transfer of financial accounts to those who have shortage and are unable to get access to service. The choice and methods of providing such services depends on the objective of the MFI, the damage of targeted market, and the institution frame work. In general, the range of

financial products commonly provided includes, credit, savings, insurance, and payment services.

Credit: “credit is defined as a condition which enables a person to extend his control as a distinct from his ownership of resources” (Padmanabhan, 1996). Alternatively Credit can be understood as the amount of money borrowed by individuals in order to perform different tasks from individual, formal financial institutions, and/or semi formal financial institutions. It is the transfer of possession or resource from the lender to the borrower on collateral basis or other agreements. Credit is borrowed funds with specified terms of payment. Loans are generally made for productive purposes, i.e., to generate revenue within a business. Some MFIs also make loans for consumption, housing or special occasions. However, many MFIs insist that only productive loans be made (Water field and Duval, 1996).

Savings: saving mobilization has long been a controversial issue in the micro finance industry. However, MFIs around the world have been successful after finding out that a vast number of informal saving schemes are available. These developments attest to the fact that low income clients can and do save. In MFIs there are compulsory and voluntary savings.

Compulsory savings- Compulsory saving represent funds that must be contribute by borrowers as a condition of receiving a loan; sometimes as a percentage of loans, sometimes until their loan is repaid. In some compulsory, saving cannot be withdrawn until the borrower actually withdraws his/her membership from the MFI. This sometimes results in the borrowing by the clients of loan amounts that are in fact less than their accumulated savings. However, MFIs are now beginning to realize the unfairness of this practice and are allowing their clients and members to withdraw their compulsory savings if they do not have a loan outstanding or if a certain amount of savings is still held in the MFI.

Voluntary saving- voluntary saving are not an obligatory part of accessing credit services. This type of saving services is provided to both borrowers and non borrowers who can deposit or with draw according to their needs. Interest rates paid ranges from relatively low to slightly higher than those offered by formal financial institutions. The provision of saving services offers advantage such as consumption smoothening for the clients and a stability of funds for the MFI.

The requirement of compulsory saving and the mobilization of voluntary saving reflect two very different philosophies (Ledgerwood, 2002). The former assures that the poor must be taught to save and that they need to learn financial discipline. The latter assumes that the working poor already save and what is required is institutions and services appropriate to their needs. MF clients may not feel comfortable putting voluntary savings in compulsory saving accounts or even in other accounts with the same MFI because they cannot withdraw the compulsory savings until their loans is repaid. They fear that they may also not have easy access to their voluntary savings. Consequently, MFI should always clearly separate compulsory and voluntary saving services.

Insurance- MIFs are beginning to experiment with other financial products and services such as insurance, credit cards, and payment servicers. Many group lending programs offer insurance or guarantee scheme. A typical example is Grameen Bank. Each member is required to contribute 1 % of the earned amount to an insurance fund. In case of the death of a client this fund is used to repay the loan and provide the deceased client's family with the means to cover burial costs. Insurance is a product that will likely be offered more extensively in the future by MFIs, because there is growing demand among their clients for health or loan insurance in case of death or loss of assets.

Payment service-MFIs may offer payment services either with their saving services or separately for a fee. If payment services are bundled with saving services, the MFI can pay an artificially low interest rate on customer deposit accounts to cover the cost of those services. Otherwise, a fee is charged to cover these costs. Fees can be based on percentage of the amount of the check or they can be a flat minimum fee with additional

charges for first time clients. Moreover, because the MFI advantages fund on checks that must subsequently be cleared through the banking system, it incurs interest expenses on the funds advantage and runs the risk that some cashed checks will be uncollectible due to insufficient with at least one bank to clear the checks being cashed. In addition to check cashing and check writing privilege, payment services include the transfer and remittance of funds from one area to another. And few MFI, are currently offering transfer services for their costs.

2.1.3.2 Social Intermediation

Social intermediation is the process of building in human and social capital required by sustainable intermediation for the poor. Successful financial intermediation is often accompanied by social intermediation. Social intermediation prepares marginalized groups or individual to enter in to solid business relationship with MFIs. Financial intermediation depends on social capital, because it depends on trust between the borrowers and the lender. Whether neither the traditional system nor modern institutions provide a basis for trust, financial intermediation systems are difficult to establish, social intermediation can thus be understood as the process of building the human and social capital requires for sustainable financial intermediation with the poor (Benaett, Hunte, and Goldbeng, cited in Ledger wood, 2002).

2.1.3.3 Social services

Social services that focus on improving the well being of micro entrepreneurs include health, nutrition, education, and literacy service. While social services are often provided by the state, a local NGO, or a community organization, some MFIs have chosen to provide social services in addition to financial intermediation. In this way, they are able to take advantage of contact with clients during loan disbursement and repayment. The delivery and management of social service should be kept as distinct as possible from financial intermediation service; i.e., they must clearly identified as separate from credit and saving services. The cost of delivering social services requires ongoing subsidies because

revenue generated from financial intermediation cannot cover all the costs. MFIs that choose to provide social services must be clear about the costs incurred and must ensure that donors supporting the MFI understand the implication of providing these services.

2.1.4 Role of Microfinance in serving the poorest people

Poor men and women that are excluded from formal financial services can be addressed through small loan and saving provided by microfinance institution. Access to credit and deposit service is a way to provide the poor with opportunities to take an effective role in their respective economic through entrepreneurship, building income, bargaining power and social empowerment among poor women and men. Although most microfinance institutions aim to reach people, it has become increasingly apparent that they rarely serve the poor. Most microfinance institutions reach the upper-poor in much greater numbers than the very poorest of the poor remains an open debate. Certain practitioners argue that it is important to have permanent operations based on wider geographical outreach, which qualify financial products by competitive, efficient microfinance (Rajaskaher, 1994).

The approach to breadth of outreach is based on long term view of microfinance services and belief that, in many cases, there is a limit to depth of outreach. This approach thus accepts a tradeoff between sustainability and reaching the priority because credit is a human right in the fight against economic exclusion. This approach requires narrow target of the poor population. Both breadth and depth of service are very important for the microfinance industry. What has become apparent, however, is that very poor people are unlikely to be served by microfinance programs unless these programs are intentionally designed to reach them. In order to design products and services for this target market, it is important to better understanding the factor that contribute to the direct condition of the poorest population (Schreiner, 2002).

2.1.5 Challenges in serving the poorest

The challenge of reaching the poorest population with microfinance includes physical and economic barriers; self election and self-exclusion, as well as sector risk and the deprivation of extreme poverty itself. Maes (2006), has put six main challenges of microfinance institutions in serving the poorest.

Physical Barriers: In many settings, the poorest population lives in remote rural areas that have no access to financial services. Reaching the poorest in remote rural areas means higher transaction costs for microfinance institutions. Such area are often characterizes by poor infrastructure, relatively high population density (in urban areas), low level of literacy and relatively undiversified economies. Many rural economic activities, moreover, have low profitability and are prone to high risk. Even if microfinance programs are present rural areas, they often suffer from lack of well trained professionals and insufficient support by the head offices.

Economic barriers: Many microfinance programs use group lending methodology clients to attend a weekly or monthly meeting to access credit. The cost of transportation of these meetings, together with the opportunity cost of attendance can present a barrier for the very poor to participate microfinance programs. Alternatively, many individual lending or saving programs require clients to save a certain amount before they can access loans, a practice that often prevents participation by the poorest population.

Self selection: It is well known that solidarity groups in Grameen style microfinance programs and village banks reject very poor member because they may be unable to repay their loans and would thus jeopardize the credit worthiness of the entire group.

Self Exclusion: even when very poor people are not actively excluded by a community, they often opt out of community related projects because they are intimidated, believing that the service offered by such projects are not suited to their needs.

Sector Risk: Very poor people are often dependant on subsistence economy as their main source of livelihood. Given the risks of poor economies and the unique requirements of financing such activities (payback of loans, for instance, can only take place after the production period that often lasts several months), microfinance institutions usually shy away from lending this sector.

Impact of Chronic Poverty: Living in absolute poverty for a prolonged time strongly affects a person's dignity and hope for the future, as well as his or her ability to take initiative and overcome stigma. Moreover, poor healthy (especially chronic diseases such as malaria an HIV/AIDS) presents a major obstacle for conducting successful micro-enterprise activities.

2.1.6 Micro finance and gender empowerment

The recent shift in terms from micro credit to microfinance reflects the acknowledgment that saving services may help to improve well being of the poor in general and women in particular. Not all microfinance institutions focus specifically on women, but a study found women make up 80% of the clients (Schreiner, 2001). Formal sector commercial banks tend to favor men, mainly because men run larger business that commercial banks favor, and men tend to control the assets that the banks seek as collateral. It is small business which most often involves self employment in the informal sector, and women make up large and growing segment of informal sector business. On the demand side, women tend to be more credit constrained than men and, therefore, more likely to self select themselves into micro credit contracts, i.e., small loans, training session, weekly meetings, and joint responsibility (Vonderlack and Schreiner, 2001).

From the viewpoint of microfinance, institutions serving women have at least three potential advantages. The first advantage is purely financial; women are often more conservative in their investment strategies and are often more easily swayed by peer pressure and the interventions of loan offices, making women more reliable bets for banks warned about repayment rates. The second advantage pertains to institutions

purchasing social objectives, i.e. aiming resources to women may deliver stronger development impacts. One reason is that women tend to be more concerned about children's health and education than males. The third advantage is that women are over presented among the poorest of poor, and are too often oppressed by their husbands and by prevailing social norms. Ethical consideration aside, the gender bias has clear implications for policy. Unequal access to health, nutrition, and educational status of women in poor households has been linked to high fertility rates, low labor force participation, low hygiene standards, and the increased incidence of infectious diseases. All these variables are clearly related to productivity and household income (ibid).

2.1.7 Are women better customers?

There are at least three reasons why lending to women may have advantages for the bank and may be efficiency enhancing in a broader economic sense. The first has to do with poverty, the second with labor mobility, and the third with risk. Women are poorer than men. According to the UNDP Human development report (1996), 70% of the world's poor, about 900 million, are women (HDP, 1996). The second argument hinges on labor mobility. Women tend to be less mobile than men and are more likely to work in or near the home. Bank managers can therefore monitor women at a lower cost. Moreover, less mobility facilitates delegated monitoring under group leading methodologies. Typically, peer borrowers who undertake investigation activity at home, and stay at home most of the time, can more easily monitor each other. Low mobility reduces the incidence of strategic difficulty under the fear of social sanctions. This brings us to the third argument in favor of a pro women bias. Because women are less mobile and more fearful about social sanctions, they are generally more risk averse than men and more conservative in their choice of investment projects. This makes it easier to secure debt repayment and create a reputation for reliability (Agion and Morduch, 2004).

2.1.7.1 Gender empowerment- Advocate argues that microfinance can increase women's bargaining power within the household. Women will become empowered and enjoy greater control over household decisions and resources. To the extent that group

lending in microfinance entails peer monitoring by other borrowers in the same group, microfinance is likely to provide protections to women within their households. In particular, violent acts and abuse by men against women can now be subject to third party scrutiny as peer borrowers will want to find out why some woman in their group have stopped attending repayment meetings. Another way in which microfinance can affect women's empowerment is with regards to the use contraceptives. One study on rural Bangladesh show that the willingness of microfinance projects (Chowdhury, cited in Murdoch, 2004), and positive impacts have been found on contraceptive use. This can be explained by the fact that microfinance increase the opportunity cost of women's home. This effect may be reinforced by peer pressure as women are urged to reduce family size in order to increase education and health expenditure and to better manage the ability to repay (ibid).

2.2 Empirical Literature Review on Poverty and Microfinance

2.2.1 Poverty in Ethiopia

Ethiopia is one of the poorest countries in the world with an average per capita income of only USD 180 as at the end of 2005/06 which is even much less than the average per capita income for Sub-Saharan Africa (USD 450). This is very little money to cover daily meal requirements, let alone health, education and other emergency expenses (Befekadu, 2008; Tadesse, 2009). Between 1990 and 2003 more than a fourth of the Ethiopian population was living on less than one USD a day (26.3 %) and in 2004 half of all the Ethiopians were living below the national poverty line (IOM, 2008).

According to the UNDP 2008 report, the Human Development Index (HDI) for Ethiopia is 0.389, ranking 169th out of 179 countries. The Human Poverty Index (HPI) focuses on the proportion of people below a threshold level in the same dimensions of human development as the HDI such as living a long and healthy life, having access to education, and a decent standard of living (based on the \$1.25 a day poverty line at PPP poverty measure). It is 51.6 % for Ethiopia ranking the country 130th among 135 developing countries for which the index has been calculated (Getachew, 2009).

In Ethiopia social and economic infrastructures are poorly developed even by African standard. Education levels are very low, and health facilities are inadequate. The caloric intake of the population is lower than the 2100 K Cal that has been set by WHO as the minimal acceptable weighted average calorie needs. Currently, nearly 40% of the population cannot afford the minimum consumption for survival. Health services are limited and reach only 46% of the population. As a result, infant mortality and overall death rates are high, while average life expectancy at birth is only 47 years. Ethiopia has the lowest road density; most of the existing roads demanding extensive maintenance (Arega, 1999; Getaneh, 2008).

There is high level of unemployment even with the skilled labor force. For instance, according to 2004 World Development Indicators, out of the total unemployment of the active labor force 26.9, 61.3 and 8.3 percent have completed primary, secondary, and tertiary education, respectively. Moreover, this unemployed labor force is increasing from time to time as the population of the country is increasing. In urban areas the unemployment rate in Ethiopia amounted to 17.6% in 2004. Especially the youth, and young women in particular are much affected by the problem of unemployment (Befekadu, 2008; IOM, 2008).

According to Gebremedhin (cited in Tadesse, 2009) mismanagement of the economy during military regime, the civil war for three decades, high dependence on rain fed agriculture, and failure to bring economic transformation have greatly contributed to the present poor state of the country's economy. Despite considerable macroeconomic stability achieved following the policy reforms of mid-1990s, in Ethiopia both rural and urban poverty have remained pervasive and ever deepening for decades (Tadesse, 2009).

In Ethiopia, the poverty reduction strategy is becoming the operational framework to translate the global MDGs targets in to national action (Alemayehu, 2008). But the fight against poverty by the Government of Ethiopia started well before work was undertaken to produce an MDG strategy, as reflected in the 2002 SDPRP, which states that Poverty

reduction is the core objective of the Ethiopian government. The SDPRP includes among its main components rapid growth in the agricultural sector and a focus on achieving food security; major investments in education and capacity building; and improved governance and empowerment of the poor (MoFED, 2005).

According to Befekadu (2008), in Ethiopia most of the poor are argued to be mainly constrained by lack of access to credit. It is also experienced in the country that the poor households are the main participants in some kind of informal sector, ranging from small petty trading to medium scale enterprises. And due to the fact that this sector uses intensive labor force, and since it is the livelihood of most of the poor, developing this sector argued to be a weapon to resolve the problem of unemployment and poverty of a household.

2.2.2 Micro-finance Experience in Ethiopia

The presence of financial markets capable of mobilizing financial resources efficiently is widely believed to be crucial for economic growth. However, the African credit markets are, in general, said to be highly fragmented. As a result financial flows between informal and formal sectors are restricted as each sector serves only a distinct group of the society (Mengistu, 1999). As it is the case with many developing countries, a large portion of the Ethiopian population is said to be served by the informal financial sector. For more than 80 percent of the population who earn their livelihood from agriculture and for urban informal micro enterprise operators, the informal financial sector plays a great role to meet the financial needs of the poor (ibid).

With limited education and skills and few formal employment opportunities, the poor in Ethiopia are usually self-employed in small-scale businesses (Itana, 2001). For example, Hayat (1997) indicates that the poor particularly women create their own jobs in very small scale agricultural, manufacturing, service and petty trading. Yet these small scale informal activities do not yield sufficient incomes to raise the poor out of poverty (Itana, 2001). Conventional theories of industrialization and standard policies have tended to

favor large scale enterprise. In contrast, small and medium enterprise have either been subject to neglect or discouraged. But recent years have witnessed a change of thinking regarding small scale micro-enterprise development. Small scale enterprises (SSEs) development has received a great deal of attention as a priority area for stimulating growth in both developed and developing countries, of which Ethiopia is one (Andualem,1997).

Accordingly, therefore, the Federal Government of Ethiopia has produced the Micro and Small Enterprises Development Strategy to create the enabling environment for the growth of these enterprises. It identified criteria and prioritized the target beneficiaries of the support program. The support program will consider those micro and small enterprises using local raw materials and/or labor intensive technologies, having greater inter and intra-sectoral linkages; potentially competitive and have the objective of exporting their products; and those engaged in facilitating and promoting tourism. The support program focuses on creating an enabling legal framework; streamlining existing regulatory conditions; facilitating access to finance; training in entrepreneurship; technical and management skills, facilitating access to market, raw-materials and fostering partnership; and facilitating the availability and access to adequate infrastructure. (Wolday, 2000).

According to the CSA and MoLSA (1996) and MoLSA (1997) statistical survey, there were 730,969 persons engaged in informal (micro activities) in urban areas while the size of the rural areas was reported to be 1,843,645 thus making the total size to be 2,574,614. The employment informal sector and small enterprises generate is said to be eight times larger than medium and large-scale enterprise. Of the urban informal operators, 65 percent were females confirming the fact that the informal sector provides refuge for the disadvantaged women. As indicated in the literature (Andualem, 1997; Mengistu, 1999; Itana, 2001), raising investment capital and lack of sufficient loan able funds and facilities are among the problems faced by micro enterprise sector particularly the informal sector. Hence, financing stands out as one of the greatest problem facing informal micro enterprises.

According to the survey of CSA and MoLSA (1996), about 50 percent of the urban informal operators respond that their major problem was lack of sufficient working capital, which could be obtained through good access to credit- 38 percent of the respondents, indicated that they wanted improvement in access to Bank credit. Regarding rural informal operators, 22 percent of those engaged in handicraft, 32 percent of those engaged in food and drinks preparation and 47 percent of petty traders responded that they had lack of credit access as a major problem. In short, these results clearly show that there is a substantial credit need in the informal sector that needs to be met by specialized micro financing institutions and informal arrangements. In Ethiopia, initiatives have been taken so far to provide micro-finance services to the urban and rural poor. In rural context, in addition to the stimulation of economic diversification, it responds to the financial needs of the peasantry to benefit from the agricultural inputs and extension services targeted at enhancing agrarian productivity (Hailu, 2000). In Urban areas it responds to the financial needs of poor informal sector operators to benefit from micro activities.

Wide scale micro financing started in March 30, 1990 following the signing of credit agreement between the government of Ethiopia and the International Development Association (IDA) (DBE, 1999).

The "Income Enhancement and Employment Generation (IEEG) which was "component of the MTDP consists of two sub-components. One of these is aimed at supporting formally licensed small-scale enterprises through the provision of credit and foreign exchange assistance. This component was planned to be implemented by DBE and HASIDA. These two organizations were used at servicing formal sector small-scale enterprises (DBE, 1999). The other subcomponent of the IEEG aimed at the provision of credit facilities to micro enterprises of the informal sector with focus on women entrepreneurs and unemployed youth (DBE, 1999). The credit scheme was first to be implemented by the Agricultural and Industrial Development Bank, now called Development Bank of Ethiopia and Handicrafts and Small Scale Industries Development

Agency (HASIDA). However, following changes of government in 1992, the responsibility of the latter was transferred to the Regional Trade and Industry Bureaux (DBE, 1999). Because of unfavorable environment that prevailed in the country during the 1990s, the actual implementation of the scheme was started in 1994 (DBE, 1999). The government issued its first microfinance legislation in 1996 (proclamation 40/96) with the aim of providing microfinance service to the poor by deposit taking microfinance institutions (MFIs). The main objective of the institution is they deliver micro loans, micro-saving, micro-insurance, money transfer, leasing etc. to a large number of productive yet resource poor people in the country in cost efficient and sustainable way (Wolday Amha, 2008).

2.2.3 Development of microfinance institutions in Ethiopia

Microfinance in Ethiopia has its origin in traditional informal method used to accumulate saving and access credit by people who lacked access to formal financial institutions. The history of formal establishment of Ethiopia Microfinance institution is limited to about sixteen years. The first group of few MFIs was established in early 1997 following the issuance of Proclamation No.40/1996.

Up until the early 1990s, the sources of finance for rural and urban poor and micro and small enterprise operators in Ethiopia were confined only to informal sources of finance like moneylenders, friends and relatives (Itana et al, 2004). He further noted that, starting in the mid-1990s, following the drought of 1984/85, some Non-Government Organizations (NGOs) introduced the idea of saving and credit among poor people as a strategy for rehabilitation and development. Later on, special government programs operated mainly in collaboration with international financial institutions came into the picture. However, both types of programs were operated in a scattered manner and lacked sustainability until 1996. Of the substantial measures taken to liberalize the financial sector, the promulgation of proclamation No.40/96 is most commonly cited. The proclamation provides the framework to create, expand and develop micro-26 finance programs. Micro-financing is viewed as a means to alleviate poverty through pumping

capital to subsistence agriculture and micro enterprises. Following the Agricultural Development Led Industrialization (ADLI) strategy of the EPRDF government, rural finance has been considered as an important tool for agricultural and food security (Belay, 2001). Consistent with its ADLI policy, the government had to reconsider the operational modality of microfinance to facilitate a very significant improvement in service delivery and outreach. Consequently, the government came up with Proclamation No.40 in June 1996. The central elements of the proclamation seem to be outreach and sustainability. That is, if properly implemented, the proclamation has the potential to facilitate significant outreach, and the flourishing of several sustainable Micro-finance institutions (Meklit MFI et al, 2005). Currently there are 29 microfinance institutions serving over 1.8 million (basically rural and urban low-income people).

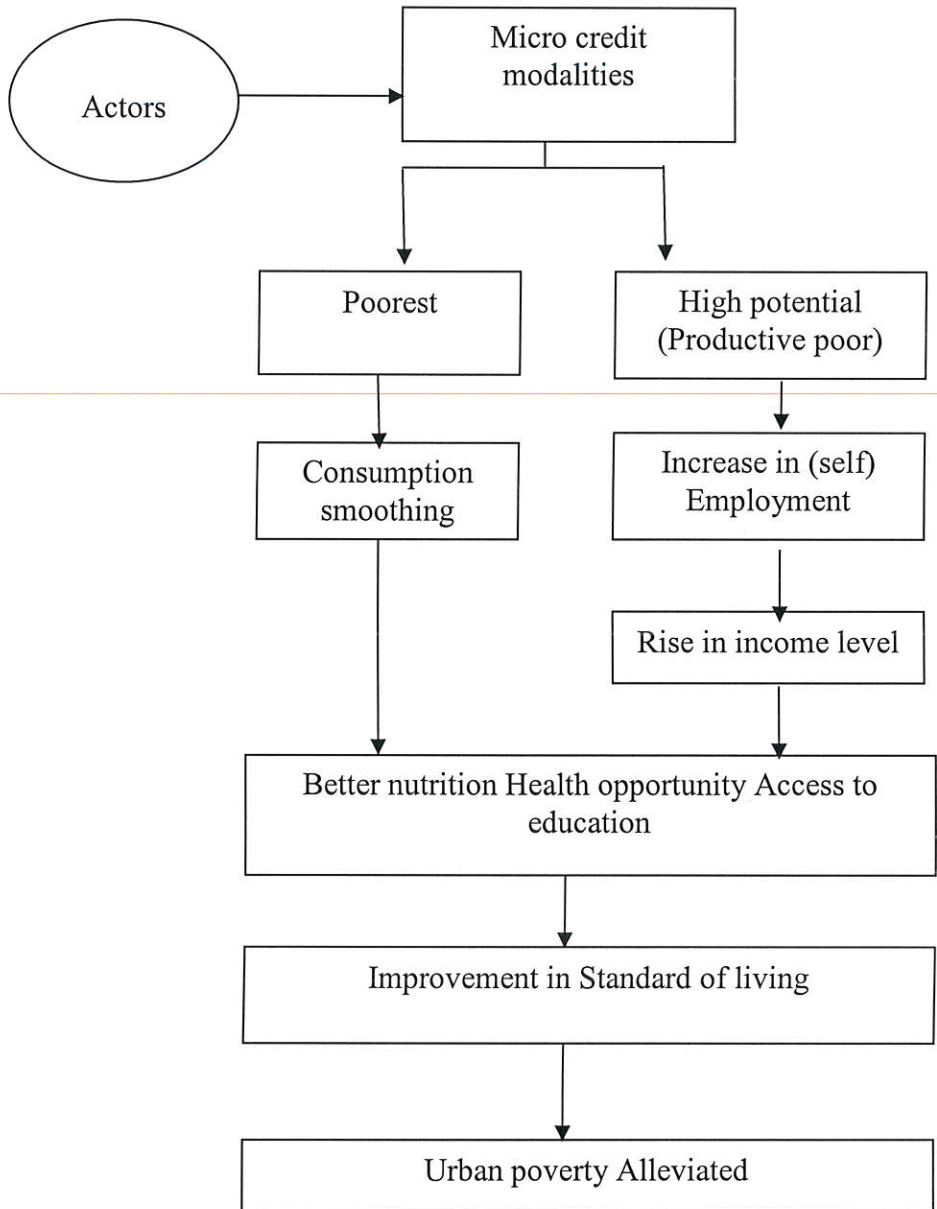
The institutions have been providing and rendering services in all the regions except for Somalia, Afar, and Gambella regional states. Currently, Gambella regional state is at final stage to secure the microfinance business license.

As of December 31, 2011, the MFIs mobilized Birr 1.2 billion in the form of voluntary and compulsory savings. Moreover, total outstanding loan and total capital reached Birr 3.2 billion and Birr 1.2 billion respectively. Furthermore, total asset amount to Birr 4.7 billion.

2.2.4 Theoretical and Conceptual framework

Credit is an important instrument that can be used effectively and productively when it is given to the creditworthy among the economically active poor people with the ability to use loans and the willingness to pay them. The term economically active poor is used in a general sense to refer to those among the poor who have some form of employment and are not severely food deficit or destitute (Robinson, 2001). When loans are provided to the poorest people, the borrower may use the loan for consumption smoothing and may be able to use the loan effectively for productive purpose (Hulme and Mosley, 1996).

Figure 2.2.4 Analytical Frame work



Source: Adapted from (Moser, 1998)

Chapter Three

3.1 The Research Design and Methods

3.1.1 Methods

Creswell (2003), defined mixed research as ‘the collection and analysis of both qualitative and quantitative data in a single study in which the data are collected concurrently or sequentially, are given priority, and involve integration of the data at one or more stages in the process of the research.’ Hence, to carefully understand the problem and address the formulated research questions, this study employed mixed method of inquiry. The study designed to use descriptive survey methods because this method helped the study to gather various data to achieve the objective of the research.

I. Survey

Survey research is probably the best method available to the social scientist interested in collecting original data for describing a population too large to observe directly. It is an excellent vehicle for measuring attitudes and orientations in large population (Babbie, 1983). Based on this understanding, a cross sectional survey research was employed by administering questionnaire, and semi-structured interview.

II. In-Depth Interview

The interview is probably the most widely used method of data collection in research. Interview can be conducted in all subjects by all types of interviewers and they can range from informal incidental sources of data to the primary source of information in research study. When used with care and skill, interviews are an incomparably rich source of data. Thus, the interview is a highly purposeful task which goes beyond mere of data collection (Anderson, 1990). Because of this, in-depth interview had been conducted with key officials of AdCSI.

III. Focus Group Discussion

Focus group has advantage over other approaches to data collection such as questionnaire or the interview. The use of questionnaires in data collection permits no input, other than that of the individual respondents. There is no opportunity to clarify questions or for the respondents to expand his or her own perception by sharing and comparing them to those of others. In the case of interviews, there is some opportunity for clarification and other input in that the interviewer might probe and suggest ideas which give rise to views and opinions which the respondent may not have shared in a written questionnaire. The focus group goes one step further. It is not only discloses what is important to individual respondents, but it attempts to provide a situation where the synergy of the group adds to the depth and insight. Thus, the group strives to provide in-depth qualitative data which could not be obtained as efficient any other way (Anderson, 2005). Hence, focus group discussions were also conducted simultaneously with the customers of the institution.

IV. Life History

Life history takes the individual life and its told history with a view to understand social process determined by class, culture, and gender (Bertaux cited in Gubrium and Silverman, 2004). Hence in order to assess issues not to be touched by survey questionnaire, in depth-interview and focus group discussion the study also investigated life history of two clients of Addis Credit and Saving Institution.

3.1.2 Source of Data

The study used both primary and secondary source of data. The primary source of data was the beneficiaries of the institute and office managers of AdCSI. The primary data were collected through research assistances that have sufficient knowledge and background in research methods. Secondary data were obtained from performance report of the institution, journals, bulletins, and various internet sources.

3.1.3 Population, Sample size and Sampling Technique

AdCSI is practicing in all sub cities of Addis Ababa city administration. According to AdCSI 2003 E.C budget year report, there were 150,467 outstanding clients taking loan for different activities like garment, food processing, metal and wood works, construction, and other like petty trade up to the 2003 E.C budget year. See the table below.

Table 3.1.3 outstanding loan and clients as June, 2003 E.C

Sub city	Male	Female	Total	Loan disbursed in birr
Addis Ketema	6,821	8,608	15,429	39,545,410.00
Akaki	5,800	6,628	12,428	38,818,842.00
Arada	6,009	7,251	13,260	41,000,121.00
Bole	6,482	9,179	15,661	35,781,685.00
Gulele	8,728	7,549	16,277	35,931,223.50
Kirkose	5,983	8,771	14,764	35,880,618.00
Kolfie	6,793	7,033	13,826	49,024,657.00
Lideta	5,021	7,695	12,716	22,598,035.477
Nefas silk	5,555	7,483	13,038	30,702,139.10
Yeka	10,142	12,926	23,068	60,975,200.00
Total	67,334	83,123	150,467	390,257,931.08

Source; AdCSI 2003 E.C budget year report

Since every sub-city undergoes similar activity and many clients of the institution concentrated in Yeka sub city, Yeka sub city was selected for the study area. Currently for Yeka sub city has above 23,000 customers, it is difficult to take this number as a population. Thus, this study focused on Woreda one of Yeka sub city. The reason that Woreda one of Yeka sub city selected as a study area was because many active clients of AdCSI are found in this Woreda. See the table below.

Table 3.1.4 Active clients of AdCSI in Yeka sub-city as of June 2003 E.C

S.No	Woreda	No. Of clients
1.	Woreda 1	1,610
2.	Woreda 2	1,285
3.	Woreda 3	898
4.	Woreda 4	1,028
5.	Woreda 5	867
6.	Woreda 6	1,261
7.	Woreda 7	1,090
8.	Woreda 8	1,541
9.	Woreda 9	1,551
10.	Woreda 10	762
11.	Woreda 11	1,324
12.	Woreda 12	1,134
13.	Woreda 13	99

Source; Yeka branch of AdCSI 2003 E.C budget year report

As table 3.1.3.2 depicts, in Wereda one there are 1,610 clients. Having this population size the next task was to determine the sample size. One basic approach to determine sample size for probability sampling is in relation to the confidence level and sampling error. According to Krejcie and Morgan, (1970) cited in Chone et al, (2000), the sample size can be set with confidence levels at 95 % and sampling errors of 5 %. The researcher found that this approach is appropriate for this study.

Hence sample size of 310 (20%) respondents selected from a population of 1,610 clients using systematic random sampling technique taking the list and the profile of beneficiaries (which include the whole address). Thus the sample size selection of 310 respondents from a population of 1,610 was made based on scientific approach and it is enough to represent the population.

Key office managers of AdCSI were interviewed based on purposive sampling. The reason that the study used purposive sampling was that to get the right persons who can provide appropriate information to address the research question.

3.1.4 Instruments and data gathering procedures

3.3.4.1 Instruments

The main data gathering instruments of this study are questionnaire, interview, focus group discussion and case study of clients.

A) Questionnaire

Data were acquired through personally administered questionnaires that are prepared based on literature review to address the research questions. The reason for selecting questionnaire for major data gathering tools is that it is easier to answer for the respondents. The item was subsequently edited and vigilantly selected bearing in mind the research questions.

To make the necessary correction, a pilot test of the draft questionnaire was carried out and also the questionnaire was given to the experienced researchers' and colleagues for editing to assure its validity.

The questionnaire has four parts. Section I, of the questionnaire contains instruction. Section II, of the questionnaire contains respondents' information. Section III, contains statements designed to assess contribution of AdCSI in poverty reduction. Section IV, is open ended space for respondents to write on about any issue not mentioned in section III.

B) Interview Guide line

Semi-structured interview was conducted to obtain data for further clarity and credibility of the research with key officials of AdCSI based on purposive sampling. The reason this study used interview is that to get in depth understanding of the issue from these key persons who have direct relationship with the institution's activity and have knowledge and expertise in the field.

The interview focused on over all practice, loan policy, and plan of AdCSI. The response obtained using interview was used to substantiate the client's response through questionnaire.

Before the interview the researcher briefly explained the aim of the interview to the participants and the information they provide kept confidential to build trust on the research and to minimize their anxiety. During the interview brief notes were taken and to have the details tape-recorder was applied with the consent of the interviewees.

Trustworthiness about the data was established by triangulating the data using multiple data sources, making respondents to review the notes or transcribed interview (members checking) and the data was examined by and discussed with a peer review that have experience in research.

C) Guideline for FGD

Focus group discussion was conducted with current customers of AdCSI based on random sampling technique. For the discussion two groups were formed. One group consisted of female clients and the other group was from male clients. Each group had 6 members including the researcher. The researcher acted as a moderator and listener posing predetermined open ended questions which the respondents answer in any way they choose. The researcher used basic questions

related to the role of microfinance institution in poverty alleviation to guide the discussion with the client.

3.1.5 Data Analysis

The method of data analysis was based on the type of instrument employed to gather information.

Data obtained from questionnaire were analyzed on the following procedure. The demographic characteristics were summarized using frequencies and percentage for all variables including sex, age, marital status, educational level and occupation. Frequency table along with percentage and other statistical tools were employed to analyze the data that obtained from closed ended questions.

The responses obtained from open ended item of the questionnaires, interview, focus group discussion and life history of clients were used to substantiate the analysis following each tables. Depending on the results of the analysis, interpretation and necessary discussion were made to clarify the issue.

Chapter Four

4. Data presentation, interpretation and analysis

The first section of this chapter deals with the demographic characteristics of the respondents in terms of sex, age, marital status, education level and occupation. The second section discusses the main part of the study: the analysis, and interpretation of data that were gathered through questionnaire, interview, focus group discussion and life history.

The research targeted on poverty reduction practices of AdCSI. Clients and employees of AdCSI were the main source of data. Accordingly, the survey questionnaires were administered to 310 clients of the institution. Of which 300 were completed and returned the rest 10 were missed. Besides, to triangulate the data obtained through questionnaire, interview was conducted with key informants of the institute namely, Plan and Program Head, Marketing and Public Relation Director, and Business Development Director. Furthermore, focus group discussion was made and life history of 3 clients was investigated to supplement the data obtained from questionnaire and interview.

4.1 General Characteristics of Sampled Respondents

As mentioned above to conduct this research, questionnaires were distributed to clients. Accordingly, table 3 below summarizes the respondents back ground information by sex, age and educational level.

Table 4.1 Distribution of respondents by sex, age and educational level

Description	Number of respondents	Percentage of respondents	Cumulative percentage
Sex			
Female	193	64%	64.3%
Male	107	35.3%	100%
Total	300	100%	
Age group			
14-18	0	-	-
19-23	2	0.7%	0.7%
24-28	44	14.7%	15.7%
29-34	57	19%	34.7%
35-39	87	29%	63.7%
40-44	71	23.7%	87.4%
45-49	13	4.3%	91.7%
50-54	6	2%	93.7
>55	20	6.7%	100%
Total	300	100	
Educational level			
Illiterate	20	6.7%	6.7%
Read and write only	30	10%	16.7%
From grade 1-4	2	0.7%	17.3%
From grade 5-8	80	26.7%	44%
Secondary education	91	30.3%	74.3%
Post secondary education	77	25.7%	100%
Total	300	100%	

The above table indicates that out of 300 respondents 64.3% were females and 30.7% were males. This helps to understand that the institution has been working whether in favor of women or not.

With regard to the age, AdCSI doesn't have clients in the age range of 14-18. Because the institution's policy prohibits lending loan for young persons whose age are less than 18 years though Ethiopian labor proclamation, categorizes young persons in the age range of 14-18 under the productive age group.

In the next age range of 19-23 only 0.7% clients are found, 14.7% are in the range of 24-28, 19% respondents lie in the age group of 29-34, 29% are in the range of 35-39, 23.7%

are in the age range of 40-44, 4.3% are in the range of 45-49, 2% are in range of 50-54 and the rest 6.7% are above 55 years. The majority of respondents about 86.4% lie in the range of 24-44 years which implies that most borrowers of AdCSI are at their productive age. The productive age in terms of sex is mostly dominated by women, i.e. 61% of respondents are women.

The third item in the above table illustrates respondents' educational level. Accordingly, about 6.7% can't read and write, 10% can only read and write, 0.7% respondents have attained up to grade 4, 26.8% respondents have learnt up to grade 8, 30.3% have reached for secondary education and the remaining 25.7% have attained post secondary education.

The educational level of respondents shows that 56% of borrowers have attained a secondary level education and post secondary level education.

Table 4.2 Number of respondents by marital status and family size

Description	Number of respondents	Percentage of respondents	Cumulative percentage
I. Marital status			
Single	70	23.3%	23.3%
Married	189	63%	86.3%
Divorced	21	7%	93.3%
Widowed	20	6.7%	100%
Total	300	100%	
II. Family size			
1-4	189	63%	63%
5-8	111	37%	100%
>8	-	-	
Total	300	100%	

As it can be seen in table 4.2, 23.3% of beneficiary respondents are single, 63% are married, 7% respondents have divorced and 6.7% are widowed. This shows that the majority of respondents are married.

Regarding to family size, 63% of respondents have 1-4 family size, 37% have a family size of 5-8 and no respondent have more than 8 family member. This indicates that majority of respondents don't have extended family.

Apart from this 63% of the total sampled borrowers are head of a household and the remaining 36.7% are not.

4.2 Previous background and income of the respondents

Theoretically, microfinance implies providing the poor with saving, credit, and insurance facilities to set up income generating activities such as agriculture, non farm sector, and thereby increase house hold income (Rajasekhar, 1994). Hence in the study of micro finance program identifying the beneficiaries and investigating that the poor benefit from the program help to understand microfinance institutions are really working to pull out the needy from poverty; and the same is applied in this study.

The clients of AdCSI were asked if they had their own source of income or any business activities that helped them generate income and create employment opportunity before joining the credit program. 95.7% of the respondents had their own business from which they generate income and create employment opportunity before joining the credit program. This may be a good indicator that AdCSI has limitation in outreaching the very poor segment of the society in its service provision. For instance, AdCSI provide what it calls "consumer loan product" which is based on employer guarantee. This is a service provided to employees of different organizations. Their employers get involved by providing written comments to AdCSI that they deduct from the monthly salary of the employee and submit the required monthly payment to AdCSI. According to the

interview made with marketing and public relation director of the institution, this is working out very well as the repayment is guaranteed and the cost per credit is less.

However, more focus to the well to do segment simply by taking in to account that they will be able to pay the loan back may lead to implicit exclusion of the very poor. In contrast to the various positive impact and strength of MC, some researchers have found the problems and negative impacts produced by the implementation of MC programs. As argued by Morduch (1998) and Copestake et al. (2001), MC programs benefit the moderately poor more than the very poor or destitute, and thus impact can vary by income group (better off benefit more from MC). This is found to be true from the primary data collected from this research as the data clearly signifies and supports it.

Moreover, the institution's selection criteria of borrowers by itself ostracize the very poor segment of the society. According to plan and program head of the institution in order to be beneficiary to the credit program borrowers at least should provide feasible business proposal, equivalent guarantee to the loan to be taken, and they need to have project site. However, in the real situation these are very difficult criteria for the very poor to fulfill hence they are pushed away from the very beginning from the program.

AdCSI has set in its objective that it contributes to poverty alleviation by giving credit and sustainable financial base and employment opportunity for the poor or the low income group. Choudhri (2002) found that the main issue [...] confronting almost all MC programs aim at poverty alleviation in varying degrees, are identification of the poor [...] causes of poverty, identification of appropriate income generating activities, and appropriate institutional support mechanism. Although the clients business background and experience is important for proper utilization of the credit and of course for guaranteeing repayment, more focus to the better off and well to do segments of who have their own business but in need of more money to further expand their business may lead to neglecting the poor who can work but unable to start their own business because of financial constraints.

Respondents were also asked their average monthly income before the credit program which is shown below in the table.

Table 4.2 Average monthly income before loan

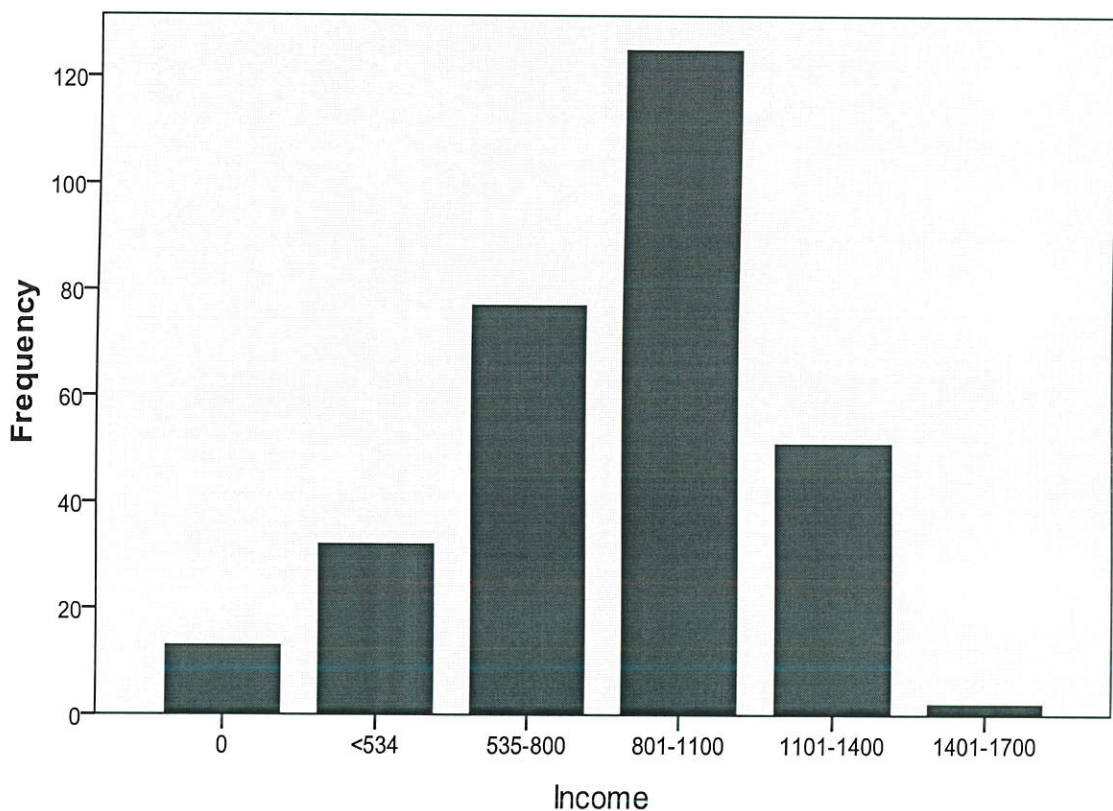
Birr per month	Average monthly income before loan		
	Frequency	Percentage	Cumulative percentage
None	13	4.3%	4.3%
<534	32	10.6%	14.9%
535-800	77	25.7%	40.6%
801-1100	125	41.7%	82.3%
1101-1400	51	17%	99.3%
1401-1700	2	0.7%	100%
1701-2000	-	-	-
>2000	-	-	-
Total	300	100	100

As indicated in table 4.2 above, among the 287 respondents 10.7% had monthly income less than Birr 534, 25.7% respondents monthly income lay between 535-800 birr, 41.7% sampled borrowers had average monthly income ranged from 801-1,100 birr and the remaining 17.7% respondents had average monthly income more than 1,100 birr.

Deaton (2010) categorizes people who earn less than \$ 1.25 per day under extreme poverty. Among 300 sampled respondents 95.7% were joined AdCSI in year 2010. The exchange rate of one dollar at the beginning, mid and end of 2010 was 12.64, 13.53 and 16.54 Birr respectively (<http://www.combanketh.com>). Hence the average rate of the three exchange rates which is 14.24 has been taken. Thus, according to Deaton those who earn less than Birr $14.24 / \$ 1.25 / \text{per day}$ or Birr $534 / 1.25 \times 14.24 \times 30 \text{ days/ per month}$ lived under absolute poverty in 2010.

But most of sampled borrowers 85.1% had average monthly income above Birr 534 which does not classify them under the category of the very poor. This implies that the very poor are not yet outreached. Hence this shows that the outreach of the program in Yeka sub city especially to the targeted urban poor is low. Even the number of borrowers with respect to total population of the sub city is not satisfactory, i.e. from the total population of the sub city (368,418); only 23,068 are getting the service which is 6.3% 2003 E.C budget year. From 1,610 borrowers as it is indicated in the above, the non-poor have a higher number than the poor. Then the question of out reaching the targeted urban poor through microfinance service in Yeka sub city remains unanswered. However, the service delivering channel AdCSI uses to address all woredas with its all service delivery posts in each Woreda is strong and encouraging.

Figure 4.2 Client's average income before loan



4.3 Socio Economic Role of AdCSI Credit Scheme

The major objective of MC is to create income among the poor households and thereby alleviate poverty. The increase or decrease in the level of income may have an implication on the life standard of the individuals. An increase in income, for instance, can pave the opportunity to open business, employment, entrepreneurship, access to health service, education and house ownership.

In her asset vulnerability framework (AVF), Moser emphasized that the development of human capital- one of the element of framework is closely linked to the economic and social infrastructure provision. Social service such as education, according to her, ensures that people gained skills, and knowledge, while economic structure such as water and electricity – together with health care-ensure that they used their skills and knowledge productively (Moser 1998). There is now a growing evidence that social capital can have significant impact on development process and outcome, in helping building in human capital (Colman, 1990), and contributes to household welfare (Narayan and Prit chett, 1997). In this regard, AdCSI contributed to the formation of social capital because they encourage, work with and approach borrowers group and individuals through different community based organizations.

Critical to the issue of micro credit service is also its employment creation among the poor society where many can use their “labor- commonly identified as the most asset of the poor (Moser, 1998) to generate income. It has been noted that in many countries of the world, MC programs, provides access to small amount of startup capital for entrepreneurial projects which will then presumably help individual to create employment opportunities.

Hence, this study measures the effects of micro credit program on participants in terms of income, consumption, employment, children's schooling, housing condition and savings.

4.3.1 Effects on Income

The most important effect of borrowing from micro-credit program is its expected positive impact on households' income. Thus, such a scheme should be evaluated with respect to its effect on income.

Table 4.3.1 Frequency distribution of respondents by income level (Birr/month)

Income Level (Birr/month)	Borrower											
	Before Loan						After Loan					
	Male		Female		Both Sexes		Male		female		Both sexes	
	f	%	f	%	f	%	f	%	f	%	f	%
None	5	4.7%	8	4.2	13	4.3	-	-	-	-	-	-
<534	14	13.1%	18	9.3	32	10.7	5	4.7	7	3.6	12	4
535-800	28	26.2	49	25.4	77	25.7	14	13.1	23	11.9	37	12.3
801-1100	47	43.9	78	40.4	125	41.7	35	32.7	44	22.8	79	26.3
1101-1400	14	10.3	40	20.7	51	17	39	36.5	108	55.7	147	49
1401-1700	2	1.9	-	-	2	0.7	11	10.3	7	3.6	18	6
1701-2000	-	-	-	-	-	-	2	1.9	3	1.6	5	1.7
>2000	-	-	-	-	-	-	1	0.9	1	0.5	2	0.7
Total	107	100	193	100	300	100	107	100	193	100	300	100

The figure in the above table shows that 10.7% and 25.7% of beneficiary respondents reported that their average monthly income to be less than 534 and 535-800 Birr respectively before loan. After loan this figure decreased to 4% and 12.3% respectively. The highest number of sampled clients' average monthly income ranged from 801-1100 Birr. However the highest number of sampled borrowers' average monthly income after loan ranged 1101-1400 Birr. In this regard it is not only the income level increased but also the number of clients has increased from 41.7% to 49% after loan. The same is true for income levels 1401-1700, and 1701-2000 Birr. In addition, the mean of average monthly income before loan was 839 Birr whereas the mean of average monthly income

after loan is 1,096 Birr. And standard deviation increased from 332.69 to 383.74. This implies that the average monthly income of borrowers has increased after they have been beneficiaries of the credit program.

Table 4.3.2 Mean for average monthly income before and after loan

Description	Total number of Respondents	Minimum	Maximum	Mean	Standard deviation
Average monthly income before loan	300	0	1650 Birr	839	332.69
Average monthly income after loan	300	1650 Birr	5000 Birr	1096	383.74

4.3.2 Effects on Access to Educational Facilities

For poor households, the development of skills to improve their chance of successful income generation is difficult. The better off usually receive formal education. They also learn a good deal about income generation skills. On the other hand, for a child born in a very poor household, access to education is rare. Even if this is achieved, there may be insufficient income to buy learning material. Provision of credit for poor households for income generating activities is expected to improve poor households school enrollment. In light of this, an attempt was made to see the effect of the credit scheme on school enrollment and annual educational expenditure of borrowers.

Table 4.3.2 Frequency distribution of respondent by the enrollment of school age dependent

Number of school age children enrolled in school	Borrower											
	Before Loan						After Loan					
	Male		Female		Both Sex		Male		Female		Both Sex	
	f	%	f	%	f	%	f	%	f	%	f	%
None	45	42.1	68	35.2	113	37.7	21	19.6	49	25.4	70	23.3
1-2	35	32.7	60	31.1	95	31.7	49	45.8	75	38.9	124	41.3
3-4	27	25.2	65	33.7	92	30.7	37	34.6	69	35.8	106	35.3
5-6	-	-	-	-	-	-	-	-	-	-	-	-
Total	107	100	193	100	300	100	107	100	193	100	300	100

As depicted in table 4.3.2, 37.7% respondents did not have any children enrolled in school before loan. After loan, however, this figure decreased to 23.3%. In contrast, the number of respondents who had school age children of 1-2 and 2-4 increased from 31.7% to 41.3% and 30.7% to 35.3% respectively. In the same table it is shown that before loan about 42.1 % of male borrowers and 35.2% of female borrowers didn't have any children enrolled in school. After loan however, such figure decreased to 19.6% and 25.4% respectively. On the other hand, the number of male and female respondents who had children enrolled 1-2 children increased from 32.7% to 45.8% and 31.1% to 38.9% respectively. Furthermore, the number of male and female clients who had 2-4 children increased from 25.2% to 34.6 and 33.7 to 35.8% for males and females respectively.

Table 4.3.3 Frequency distribution of respondents, who sent their children to school, by annual educational expenditure (Birr/year)

Educational Expenditure (Birr)	Borrower											
	Before Loan						After Loan					
	Male		Female		Both Sex		Male		Female		Both Sex	
	f	%	f	%	f	%	f	%	f	%	f	%
<100	33	53.2	69	55.2	102	54.6	42	48.8	78	54.2	120	52.2
100-200	21	33.9	42	33.6	63	33.7	31	36.1	48	33.3	79	34.4
200-300	8	12.9	14	11.2	22	11.8	13	15.1	18	12.5	31	13.4
>300	-	-	-	-	-	-	-	-	-	-	-	100
	62	100	125	100	187	100	86	100	144	100	230	

In the survey about 54.6% of the borrowers reported annual educational expenditure less than 100 Birr before loan followed by 33.7% and 11.8% of respondents who reported their educational expenditure were 101-200, 201-300 Birr respectively. After the loan, however, the number of respondents who reported an annual educational expenditure of less than 100 Birr has been decreased from 54.6% to 52.2%. On the other hand, the number of clients who reported that their annual educational expenditure is 100-200 Birr has been increased from 33.7% before loan to 34.4% after loan. In addition, the number of borrowers who pay 200-300 Birr for educational expenditure is increased to 13.4% which was 11.8% before loan.

In connection to the above discussion, respondents were also asked about the bearer of the educational expenditure. Among 62.3% respondents who sent their children to school before loan 62.6% and 26.2% reported that the expense was covered by themselves and other family members respectively. The rest 11.2% stated that it was covered by relatives and donors. However, after loan the number of borrowers who sent their children has increased to 230. Of which 78.7% borrowers reported that the educational expenditure has been paid by them and the remaining 21.3% is covered by other family member and relatives. Hence all these findings suggest the positive contribution of the micro credit program in children's schooling.

4.3.3 Effect on Access to Medical Facilities

Similar to improved access to educational facilities AdCSI's credit scheme is expected to improve access to medical facilities as well.

Table 4.3.3 Percentage distribution of respondents by access to public and private medical facilities

	Response	Borrowers											
		Before Loan						After Loan					
		Male		Female		Both Sex		Male		Female		Both Sex	
		f	%	f	%	f	%	f	%	f	%	f	%
Access to public medical facility	Yes	102	95.3	185	95.9	287	95.7	104	97.2	189	97.9	293	97.7
	No	5	4.7	8	4.2	13	4.3	3	2.8	4	2.1	7	2.3
	Total	107	100	193	100	300	100	107	100	193	100	300	100
Access to private medical facility	Yes	47	43.9	79	40.9	126	42%	69	64.5	136	70.5	205	68.3
	No	60	56.1	114	59.1	174	58%	38	35.5	57	29.5	95	31.7
	Total	107	100	193	100	300	100	107	100	193	100	300	100

During the household survey, 95.7% and 97.7% borrowers reported as having access to public medical facilities before and after loan, respectively. There is no significant difference between before and after credit regarding the access of public medical facilities. Concerning access to private medical facilities 42% of the cases had access to private medical before the loan. After the loan, however, the number of respondents who have access to private medical facilities increased to 68.3% which is by far greater than before the loan. This implies that after the program participation about 26.3 % of clients could afford to visit private medical facilities.

Households were also asked about the overall opinion on the access to medical facilities hence, 71.6% of borrowers reported an improvement while the remaining 28.4% reported non-improvement. Therefore, we can conclude that micro credit has positive role on access to medical facilities.

Table 4.3.4 Frequency distribution of respondents by annual medical expenditure

Medical Expenditure (Birr)	Borrower											
	Before loan						After Loan					
	Male		Female		Both Sexes		Male		Female		Both Sexes	
	f	%	f	%	f	%	f	%	f	%	f	%
<100	33	30.8	77	39.9	110	36.7	19	17.8	63	32.6	82	27.3
101-150	41	38.3	59	30.6	100	33.3	43	40.2	49	25.4	92	30.7
151-200	21	19.6	36	18.7	57	19	29	27.1	43	22.3	72	24
201-300	12	11.2	21	10.9	33	11	16	14.9	29	15	45	15
>300	-	-	-	-	-	-	-	-	9	4.7	9	3
Total	107	100	193	100	300	100	107	100	193	100	300	100

Table 4.3.4 shows that about 70 % of borrowers reported that an annual medical expenditure of less or equal to 150 birr before loan. After loan, the number of respondents who reported an annual medical expenditure of less or equal to 150 birr decreased to 58%. In contrast, the number of cases who indicated an annual medical expenditure of greater than 150 Birr increased from 30% to 42%.

Besides improving to medical facilities AdCSI credit scheme is expected to help those individuals, who were dependent of others medical expenditure, to be self-supporting. In the survey, before loan while 16.7% of respondents reported other family members as the bearer of medical expenditure, 7.7% and 3.7% of the respondents mentioned relatives and the use of free medical expenditure respectively. The remaining 72% mentioned themselves as the bearer of medical expenditure. After loan, while the number of respondents, who reported themselves as the bearer of medical expenditure increased

from 72% to 88%, the number of those who mentioned other family members, relative and use of free medical user decreased from 28.1% to 12%.

In connection with the above discussion, households were asked about their opinion about access to medical facilities. About 83% of respondents mentioned an improvement while the remaining 17% reported as there is no improvement. To conclude the above pieces of information on the bearer of medical expenditure and household's opinion on the general improvement is an indication that the scheme has a positive contribution in improving health status of borrowers.

Table 4.3.5 Household response on the bearer of medical expenditure

Bearer of medical expenditure	Borrowers											
	Before Loan						After Loan					
	Male		Female		Both Sexes		Male		Female		Both Sexes	
	f	%	f	%	f	%	f	%	f	%	f	%
Borrower him/herself	74	69.2	142	73.6	216	72	93	86.9	171	88.6	264	88
Other family members	19	17.8	31	16	50	16.7	9	8.4	12	6.2	21	7
Relatives	9	8.4	14	7.3	23	7.7	2	1.9	6	3.1	8	2.7
Free medical users	5	4.7	6	3.1	11	3.7	3	2.8	4	2.1	7	2.3
Total	107	100	193	100	300	100	107	100	193	100	300	193

4.3.4 Effects on Access to Housing condition

A part from serving people as shelter, a house is the most valuable asset people should have. In urban area when the house is improved, its value boosts and can be used for rental or enterprise purposes for generating income and their by increases an individual and households material wealth. In line with this, Moser found housing ownership as the

most important productive asset of the urban poor that cushions household against severe poverty (Moser, 1998).

In terms of improvement in housing condition 51.3% respondents gave positive response 41% respondents replied that there is no as such significant change in housing condition before and after the credit and the rest 7.7% disclosed that there is no completely improvement. Among other issues asked to clients this figure relatively less perhaps because the housing issue is related to the issue of land and different complicated legal aspects.

4.3.5 Effects on Consumption Expenditure

The other most important effect of borrowing from a micro-credit program is its impact on consumption expenditure. Hence, the role of micro credit needs to be evaluated in this perspective.

Table 4.3.5 Frequency distribution of respondents by the level of consumption expenditure

Consumption Expenditure (Birr/month)	Borrower											
	Before Loan						After Loan					
	Male		Female		Both Sexes		Male		female		Both sexes	
	f	%	f	%	f	%	f	%	f	%	f	%
250-300	32	29.9	58	30.1	90	30	9	8.4	5	2.6	14	4.7
301-350	41	38.3	79	40.9	120	40	25	23.4	23	11.9	48	16
351-400	23	21.5	40	20.7	63	21	31	28.9	64	33.2	95	31.7
401-450	11	10.3	16	8.3	27	9	25	23.4	81	41.9	106	35.3
451-500	-		-		-	-	10	9.4	11	5.7	21	7
>500	-		-		-	-	7	6.5	9	4.7	16	5.3
Total	107	100	193	100	300	100	107	100	193	100	300	100

The lowest average consumption expenditure that respondents stated is Birr 250 and the highest expenditure is Birr 450 per month before loan. After loan, however, the lowest consumption expenditure is still Birr 250; it is decreased from 30% to 4.7% this means that about 25.3 % of the cases have been shifted to higher consumption levels. The highest consumption expenditure which was Birr 450 before loan has been increased above Birr 500 after loan. In addition no respondent reported that their monthly consumption expenditure was greater than Birr 450 but after loan 12.3% respondents reported that their monthly average consumption expenditure is greater than Birr 450.

When we look at the consumption expenditure of male and female borrowers the maximum average consumption expenditure was Birr 450 for both sexes before loan. After loan, however, the number of male borrowers who indicated average consumption expenditure greater than Birr 450 is 15.9% where as the figure is low for female (i.e. 10.4%).

Table 4.3.6 frequency distribution of respondents by the bearer of consumption expenditure

Bearer of consumption expenditure	Borrower											
	Before Loan						After Loan					
	Male		Female		Both Sexes		Male		Female		Both sexes	
	f	%	f	%	f	%	f	%	f	%	f	%
Beneficiary Him/herself	65	60.8	99	51.3	164	54.7	89	83.2	135	69.9	224	74.7
Other family member	35	32.7	73	37.8	108	36	-	-	23	11.9	23	7.7
Relatives	7	6.5	21	10.9	28	9.3	18	16.8	35	18.1	53	17.7
total	107	100	193	100	300	100	107	100	193	100	300	100

In addition respondents were asked about the bearer of the consumption expenditure. As table 4.3.6 shows during survey, 54.7% respondents reported that they themselves covered consumption expenditure before the loan while remaining 36% and 9.3% reported other family members and relatives covered consumption expenditure respectively. However, after loan the number of respondents that covered the consumption expenditure by themselves increased from 54.7% to 74.7%, and the number of respondents that reported other family members and relatives covered consumption expenditure decreased from 45.3% to 25.4%. This implies that 19.9% of the cases who were dependent on others could support themselves after the credit scheme.

Related to the above discussion, household survey was asked whether the composition of consumable items have changed after program participation or not 68% of the cases reported as there is change in the composition of consumable items while the rest claimed no change.

4.3.6 Effects on Employment Generation

One of the prime objectives of AdCSI is to create long term employment in income generating activities (AdCSI's profile, 2000). Thus the role of the institution should be seen with respect to employment creation.

The immediate positive impact of microfinance scheme is on employment generation. Types of business activities and trends of employment opportunities were collected. The two basic type of business activities are service provision and production. Since the respondents are urban poor, service provision is commonly practiced type of business activities for most of respondents. The number of sample respondents who have been engaged in metal and wood work, pity trade, sewing cloth, repairing shoes, and embroidery have positive attitude in improvement of job creation after the credit program.

Table 4.3.6 Respondents' response in employment Generation

Employment generated	Borrower					
	Male		Female		Both Sex	
	f	%	f	%	f	%
Yes	86	80.4	181	93.8	267	89
No	21	19.6	12	6.2	33	11
Total	107	100	193	100	300	100

As shown in table 4.3.6 out of the total sample respondents 89% respondents reported that the trend of their employment opportunities have been improved since they have joined the credit program. On the other hand 11% of borrowers showed no improvement in job opportunities. This implies that microfinance services to urban poor have positive effects on employment generation. Moreover during the focus group discussions participants who came to be self-employed in their micro-enterprises after they joined the program revealed that the self-employment opportunity helped them to develop a sense of worth beyond material gains they are obtaining from their micro-businesses.

4.3.7 Effects on Savings

Successful credit programs are often tied closely to saving schemes. Savings can increase the amount of capital available to a group (Hurley, 1990). Webster and Fidler (1996) noted that saving services enable the poor to accumulate very small surplus that can be used at a later date to ride out dips in income or respond to emergencies. Saving is a key to microfinance institutions success in attaining full financial self-sufficiency because they provide a sustainable local source of loan funds. Therefore, the impact of micro finance needs to be evaluated in this respect.

Table 4.3.7 Respondents' response on the availability of saving

Saving	Borrowers											
	Before loan						After Loan					
	Male		Female		Both Sex		Male		Female		Both Sex	
	f	%	f	%	f	%	f	%	f	%	f	%
Yes	45	42.1	31	16.1	76	25.3	73	68.2	181	93.8	254	84.7
No	62	57.9	162	83.9	224	74.7	34	31.8	12	6.2	46	15.3
Total	107	100	193	100	300	100	107	100	193	100	300	100

Table 4.3.7 above reveals that there were only 25.3% of the respondents with saving account before the loan. However, after the loan the number of respondents who have account increased to 84.7%. The impact on saving of borrowing by men increased 1.6 fold whereas female saving increased by 5.8 fold. This result shows that borrowing by female has a great impact on saving than their male counterparts. This may be partly attributed due to the fact that men spend more than female on consumption expenditure which resulted to low saving. However, the overall figure implies that the credit program has enabled the clients to save better than they had saved before they became the beneficiary of the credit program.

Generally, for the above each economic and social factor the majority of respondents reported that situations are better after the credit program. Especially the improvement is greater for female clients. These all indicate that the credit program has changed the overall quality of life of clients. This is also supported by the case study of a 39 years old guy life improvement.

Case 1: the tailor's Success

This case study is concerned with a 39 years old tailor who lives around Ferensay Legasion. Before he joined microfinance program he had only one old sewing machine which used almost for 9 years and his average monthly income was 700 Birr with this money he managed six family members including himself. He used to sew and sell clothes in a narrow two by one square meter room which separated with carton wall from his home. While he was in such condition in 2002 (1994 E.C) he heard about AdCSI from the institution's woreda officers that he can borrow money and expand his business. Following their advice in the first credit round he borrowed Birr 8,000 and with this money he changed his cartoon walled and plastic roofed room to corrugated iron made room. With the rest money he bought additional used sewing machine. Then he started working together with his nephew who came to Addis Ababa from country side in search for job. But after some months the old sewing machine which served for 9 years stopped giving service because of old age. Hence, he started working alone with only one sewing machine. Doing alone he repaid completely his loan within 2 years. For the second time in 2004 (1996 E.C), he borrowed 10,000 Birr and purchased new sewing machine and restarted working with his nephew. In the mean time he took 6 months training to upgrade his capacity to sew fashionable clothes paying 300 Birr per month.

Gradually his work got widened and number of customers increased from time to time. Within 5 years he bought 6 sewing machines of which 2 operates with electricity. He has rented a house for workshop with 3,000 Birr per month. There are now totally 7 employees hired under his organization. He pays to his employees the highest salary 1,500 Birr and the lowest 400 Birr. He is teaching his three children in a good private school of the locality and their monthly educational expenditure is 1,350 Birr. In addition, he bought a car called Lada to subsidize his life from an income of a taxi service provision. Now he is so happy of all these successes and has a plan to borrow for third round 50,000 Birr to boost up his small sized- work shop to medium sized-work shop.

4.4 The benefit of AdCSI credit program by gender

In just three decades a series of breakthrough has shown that women-especially poor women- are credit worthy and make excellent consumer of financial products.

Today the majority of MC clients worldwide are women. Not only is MC is good for women, but it also turns out that women are good for MC. Women are highly motivated saver and repay their loans at a higher rate than men.

MC is supposed to safeguard women's equal access to health care, employment, housing and education. Women are typically targeted for MC initiatives around the globe because studies indicate that involving women in the benefit of MC often plays a role in increasing gender equality. As compared to men, providing women more access to financial resources and enabling them benefit from the outcome of MC program helps increase the stability of the family size unit (Cheston and Kuhn 2002).

According to Mayoux (2001) women need to be targeted to benefit from the outcome of MC programs because their characteristically high level of poverty and responsibility for maintaining and running the family unit. Cheston and Kuhn (2002) argue that while women typically contribute all of their financial resources to their family, men rarely do so. According to Mayoux (2001), when women are given decision- making power, they generally make decision that will be optimal for their families. As a result, women will tend to make financial decisions that will promote nutrition, health and literacy within their families, whereas men may allocate some of their resources towards activities that are not helpful (and sometimes harmful) to the family. Given the consideration that women are poorer than men, they are expected to benefit more than men from MC program. In other words, if MC programs are supposed to contribute to poverty alleviation, women have to benefit more than men from the outcome of the credit program.

AdCSI has put giving priority to women in provision of service as one of its objectives. In Yeka sub city, there are large number of women borrowers that are engaged in the

program. In 2003 E.C budget year the number of individual women borrowers were 12,926 out of the total 25,068 borrowers of the institution. Though the total outreach of the institution compared to the total population is not satisfactory, its effort to involve a higher number of women in the provision of the financial service is encouraging.

Furthermore, among 300 respondents 64.3% are female clients and 35.7% are male clients. This difference implies that the institution has given priority to women in its service provision. This is also supported by the interview conducted with the Marketing and public relation director of the institution. The director explained that from the total clients of AdCSI women's number comprises 52%. In line with this he notified the reason that the institution has focused on women is for the majority of unemployed segment of the society are females and in contrast to men women are willing to be engaged in any type of work so as to change the life of their family and themselves. Moreover, the life history of the woman, stated below, testifies that the institution is striving for life improvement of females.

Case 2: a young woman effort to be liberated from dependency

Woizerit Tsegie has been a client of Addis Credit and saving institution since 2011 (2003 E.C). The 27 year old woman was born here in Addis Ababa a place called Ferensaye Legasion. This woman has been living with her aunt after her parents died at the age of 10. She completed high school 8 years ago and till 2011 (2003 E.C) she had nothing to do. After completion of her high school education she told that her aunt behavior was totally changed at her. Her aunt said her, "for you are my beloved brother's daughter you stayed with me for the last 17 years to make you man selling firewood and tela (traditional beverage in Ethiopia) but after now this situation never continues in this way. While she was in this horrifying condition, she heard about AdCSI from one of her high school classmates who is a client of the institution. She joined the microfinance program following advice of her former classmate in 2011 (2003 E.C). In the first credit round she intended to borrow 5,000 Birr but due to lack of personal guarantee she borrowed 3,000 Birr in the name of her father's friend, who applied for that sake, and adding the credit she drawn in her own name. Then she started petty trade "yegulette negede". She told that the pity trade is profitable especially the self-employment opportunity helped her to develop a sense of worth beyond material gains she developing from her micro-business. And she regrets about her time passed idle.

Currently she is attending Accounting in the evening program in Admas University College. Using the profit from her pity trade she pays her tuition fee, covers household expenditure. Now her aunt has stopped selling firewood by taking long distance carrying on her back. She claims to be different person from what she used to be and is confident to predict that she would be in a much better position in the future. But she bothers the improvement in life not to take longer time than she wants to be due to lack of personal guarantee. At the time of interview she repeatedly said "had personal guarantee not been a problem the dynamic life change would have been in the very near future."

4.5 Challenges and/or Opportunities for Clients

Microfinance program can bring some opportunities for the urban poor if it is managed effectively and efficiently. The availability of financial services to the unbanked to engage them in income generating activities can result some improvement on their livelihood. However, it is difficult to conclude that microfinance program has only positive impact and opportunity, and clients can always pay their loan easily at a specified time. Hence there are challenges that obstruct clients to repay their loan and manage effectively. These challenging factors can result a default and/or failure to achieve its target. The most common explanations for cases of default refer to one of two types of causes. Either a failure of client's venture due to an external shock such as failure in business or marketing problem; or it can result that are internal in the financial institution such as higher interest rate, shorter repayment period, strict repayment rules etc (Schreiner, 2002). Clients of AdCSI in Yeka sub city are not out of the challenge exists; and sampled respondents were asked about their repayment behavior, the challenge they face during repayment, and the other factors that borrowers put as opportunities respective to their interest in which the summery of the findings has elucidated in the next table.

Table 4.5 Distribution of respondents according to challenges and opportunities

Description	Frequency	Percentage	Cumulative percentage
I. State that you dislike (challenge) about AdCSI service			
Personal guarantee	115	38.3%	38.3%
Delay of service	51	17%	55.3%
Short repayment time	81	27%	82.3%
Smaller amount of loan size than required	38	12.7%	95%
High interest rate	15	5%	100%
Total	300	100%	
II. State that you like about AdCSI's service			
Availability of service closer to home	181	60.3%	60.3%
Fast service	70	23.3%	83.3%
No collateral requirement	49	16.3%	100%
Total	300		
III. Do you repay the loan you borrowed on time			
Yes	278	92.7%	92.7%
No	22	7.3%	100%
Total	300	100%	

According to table 4.5, to single out the main challenge sampled borrowers were also asked to choose service they dislike in AdCSI. Accordingly, 38.3% of respondents

dislike personal guarantee, 17% delay in the service provision, 27% respondents dislike short repayment period, 12.7% respondent hate smaller amount of loan size and 5% respondents dislike high interest rate. The reason behind having large number of respondents that dislike personal guarantee can be lack of getting willing persons to be a guarantee. During the focus group discussion personal guarantee was stated to be a major problem to get credit. In this regard, salary scale was emphasized by the focus group participants. The discussants revealed that to borrow much amount of money the institution requests personal guarantee that has high salary. This is also very difficult for most of them. One of the male's group discussant said,

'As my friends said it is so difficult to get personal guarantee that has high salary, in case if obtained, the guarantee inquires commission from the credit we borrow, that we don't want to do.'

Clients' dislike can be ranked in order as high interest rate, delay in service provision, smaller amount of loan than required and short repayment period. On the opposite side sampled respondents were asked about the service they like (opportunities) among those provided by AdCSI. As a result 16.7% like the low interest rate, 50.3% of respondents admire (put as opportunity) the availability of the service close to home 20% the fast service delivery (less bureaucracy) provided by the institute, 13% of the respondents also like the loan service without collateral requirement.

Moreover for the question 'Do you pay the loan you borrowed on time?' among the total sampled respondents 92.7% said they pay their loan on time and 7.3% of respondents said they do face with some difficulties to repay their loan on time. Out of 278 respondents who reported they pay their loan on time, 38% respondents paid from the profit they made, 55.3% respondents pay some part from profit and the other part from other sources and 6.7% pay entirely from other sources.

The same question was provided for focus group participants. All the discussants unanimously disclosed that they pay the loan within the specified period of time. In this

regard, they stated that they have weekly saving in the institution which is used only to repay the credit.

In general, though the challenges and opportunities for clients in AdCSI service can differ from borrower's perspective, we can put some visible challenges and opportunities put by the sampled borrowers in Yeka sub city. Hence availability of services closer to home, fast services provided by the institution, and loan without collateral requirement are orderly some opportunities for clients based on their preference.

4.6 Credit utilization

It is obvious that the borrowers take a loan for purpose of different activities. The provision of microfinance from the theoretical perspective is to reduce poverty level through enabling the poor to participate in income generating activities (Morduch, 2004). However due to the fungible nature of money, borrowers use the loan for non productive and non-targeted activities like paying for credit they had before, for ceremonial expenses (wedding) etc. There seems to be three types of reasons for fungibles; manipulation of loan types, poverty, lack of knowledge (discipline), and factors that sometimes can appear in combination. First, loan for different types of activities have different condition and hence it can be tempting to apply for a loan that suits one's situation even though the money is not intended for immediate problems they face. Third lack of knowledge or discipline is no doubt one reason behind division of loan, i.e., clients might have unrealistic idea about how to use the loan and ends up spending the money in other ways than was intended and stated as the reason to take a loan (Schriener, 2002). Hence the credit utilization of borrowers can play its role on the poverty alleviation effort.

Apart from these, disciplined borrowers can also use their loan for the intended purpose. There are different reasons that promote individuals to open credit and saving services. Such as to expand business, to open new business, to change the old business they had in to another new business , to repay other loan, to pay educational fee, to solve serious problems they faced at a time, to be independent of their spouse etc. According to sampled

borrowers, as can be shown below in Yeka sub city there are different reasons that promote borrowers to take a loan.

Table 4.6 Distribution of respondents according to the reason that promote them

What promote you to take the first loan	Number of respondents	Percentage	Cumulative percentage
To expand my business	210	70%	70%
To open new business	50	16.7%	86.7%
To pay educational fee	25	8.3%	95%
To repair house	15	5%	100%
Total	300	100%	

As it is indicated in the above table, the main reasons to take loan put by borrowers are to expand business 70%, to open new business 16.7%, to pay educational fee 8.3% and to repair house 5%. However, the basic determining factor is not the reason to borrowers to take a loan, rather it is the purpose they used and what percent of the loan they use for the intended purpose. Accordingly the sampled borrowers were asked the purpose of utilization of the loan and what percent were for the intended purpose as it is shown below.

4.7 Table distribution of respondents according to the purpose and amount used

I. For what purpose did you use the first Loan you took?	Number of respondents	Percentage	Cumulative Percentage
Petty trade	165	55%	55%
Embroidery	35	11.7%	66.7%
Metal and wood work	30	10%	76.7%
Construction	25	8.3%	85%
Others (shoe maintenance, buying machine, educational fee etc...)	45	15%	100%
Total	300	100%	
II. What percent have you used for the intended purpose			
All (100%)	274	91.3%	91.3%
More than half (50%)	26	8.7%	100%
Half (50%)	-		
Less than half (<50%)	-		
Total	300	100%	

As indicated in table 4.7, 55% of respondents use the loan for petty trade. 11.7% of respondents use the loan for embroidery, 10% of respondents use the loan for metal and wood works, 8.3% respondents use the loan for construction, 15% for other purposes such as to pay educational fee, buying machine etc. However, putting only the purpose of loan borrowers use it not the only condition rather what percent of loan their loan have use for the intended purpose is also another part that could get a due attention. Thus, according to their responses there is a good usage of loan for the intended purpose. i.e., 76.7% reported they use all to the intended purpose, 23.3% said they use more than half of the loan they took for the intended purpose. However, no respondent reported that they used the entire loan for another purpose rather than using it for the target they took the loan.

At the time of the key informants, business development head revealed that on the seventh day after the credit is taken credit officers at woreda level go to borrower's project site to observe what activities are being done. If the borrower doesn't start the business within 30 days, he/she is going to be forced to return the loan. But once the business is started, the woreda credit officers continue observing the business regularly till the loan fully pay back.

The information from the focus group discussants also shows that borrowers utilize the loan for the intended purpose. Most of the discussants testify to witness that woreda credit officers go to their project site every month to observe for what purpose clients are utilizing the loan. Furthermore, they disclosed that in case if they need additional loan, the institution doesn't lend unless clients utilize the previous credit for the targeted purpose. Hence perhaps if there is a borrower who is interested to use the loan to other purpose the regular monitoring of the institution prohibited him/ her not to do that. Fear of not to be banned from another credit round is also the other internal factor that forces borrowers to repay their loan.

Majority of sampled clients 86.3% joined AdCSI after 1997 E.C. Within the last seven years 89.2% borrowers took loan at least two times. As the director of marketing and public relation of the institution borrowers can lend as many time as they want but his organization lends loan for second or other additional credit rounds if and only if borrowers repay previously taken loan in the specified period of time of the institution. One can understand from this that the majority of borrowers are repaying their credit on time.

4.7 Interest rate and loan size

In most cases, micro finance institutions charge a higher interest rate compared to the formal banks. The justification behind the higher interest rate is due to the risk and uncertainty of lending to poor without collateral since it is based on joint liability. However in Yeka sub city most of borrowers have taken individually the individual

lending methodology is given based on collateral requirement, that is, house, vehicle, or guarantee. Despite the collateral requirement the institution charges 10% interest rate for installment and micro lease loan. The argument on the interest rate of microfinance institution is based on two aspects. One there should be higher (but moderate) interest rate that can save the institutional sustainability, and the second is it should be lower that can exploit the poor more than they can gain as profit from the business they run through the loan (Rajasekhar, 1994). But having a collateral and higher (more than banks) interest rate is questionable. Hence sampled borrowers in Yeka sub city were asked their response towards the interest rate charged by the institution that can be summarized as follows.

Table 4.7 Distribution of respondents according to their response on interest rate

What do you feel about the interest Charged by AdCSI?	Frequency	Percentage	Cumulative percentage
Low	50	16.7 %	16.7%
Moderate	141	47%	63.7%
High	95	31.7%	95.4%
I don't know the amount of the rate	14	4.7%	100%
Total	300	100%	

As can be seen in table 4.7 and graph above, sampled borrowers have reacted differently towards the interest rate. Among the total respondents 16.7% respondents said the interest rate is low, 47% respondents reported that the interest rate is moderate, 31.7% said there is high interest rate and 4.7% explained that they didn't know the amount of interest rate charged.

During in in-depth interview the head of plan and program department stated that previously borrowers had compliant on the interest rate charged but after we made awareness to borrowers that the entire interest collected will not enter in to the institution (6% paid to commercial bank) the compliant has been decreased.

Though the head said this, 4.7% of sampled respondents explained that they don't know the amount of interest rate charged. This implies that adequate work was not done in provision of information about the interest rate charged before borrowers take the loan.

In general what we can conclude from the respondent's perspective is 63.7% respondents explained that the interest rate is moderate. Hence interest rate is not a major problem for clients to borrow money.

Loan size limited by the institution is another factor that can affect poor borrowers to engage in income generating activities. Now a day though the micro bank AdSCI can lend to its clients from 700 Birr up to 50,000 Birr depending on the project they have. The poor who have lack of education, business knowledge, have difficulty to make project proposals; hence they prefer to take a general loan that has a maximum limit of Birr 5,000 for single borrowers. Thus, sampled respondents were asked their feeling to the loan size relative to their demand and business they run, that can be shown as below.

Table 4.8 distribution of respondents according to the loan size

What do you feel about the Loan size in relative to your Business?	Number of responde	Percentage	Cumulative Percentage
Very low	100	33.3%	33.3%
Smaller than required	44	14.7%	48%
Good enough	129	43%	91%
More than enough	27	9%	100%
Total	300	100%	

As it is indicated in table 4.8 out of the sampled respondents 33.3% of them said the loan size is very low, 14.7% said it is smaller than they required, 43% reported the loan size is as good enough relative to their business, and 9% said the loan size is more than enough. The result reveals that majority of sampled borrowers are happy of the loan size given by the institution. This is supported by interview held with MPRD. The director revealed that

clients can borrow sufficient amount of money to their business if they satisfy all the necessary criteria of the institution (e.g. like providing project proposal, group or individual guarantee, collateral etc...). In addition he revealed that there is loan limit though a borrower fulfils all criteria if he/she is a new beginner of the business.

The focus group discussion participants' were also asked about the loan size of the institution in relative to their business. Most of them, except 1 out of 10 total participants in the two groups, have agreed that the loan size is good enough to run their business. Hence the loan size has some encouraging response and demand by the borrowers though some improvement is needed to capture a higher number of satisfied borrowers.

4.8 Client Recommendations

Based on their observation, sampled clients have also provided their recommendations. Looking at the response of sampled clients the majority recommendations forwarded are that which calls for difficulty of getting personal guarantee and the rule of the institution that requests 20% saving from the loan itself borrowers take. 38.3% of the sampled clients recommended that the institution looks for other solution for personal guarantee problem and one 59.3% suggested that the institution has to start collecting its money after borrowers start businesses for which they take loan.

Chapter Five

Conclusion and Recommendation

5.1 Conclusion

Poverty is a major challenge to developing countries. It is a problem for all the countries irrespective of their level of development and can be observed in many forms. It has both income and non-income dimensions. It may be a lack of income or resources, a lack of capacity, a lack of basic human capabilities, a lack of institutional defense or in extreme cases a lack of all these. In a wide sense, it may be a combination of economic and political deprivation.

To address this problem different strategies have been implemented by developing countries depending on the existing situations. Recently MC has been given due weight as one of the means to fight against poverty. MC programs extend small loans to poor people aiming at enhancing self-employment project that generate income to improve the living condition of the poor and alleviate poverty.

The only productive resource that many of the poor in the informal sector possess is their labor. To a large extent, many of them are either unemployed or employed in activities with low return of unprofitable marketing. These people can be more productive by use of their labor through credit by allowing them access to income producing assets. Credit can promote the productivity capabilities of the poor in the informal sector and enabling them to satisfy their needs better through participation in their own activities. Consequently, they will be able to progressively increase their income, saving and investment through self-employment and thus cross the poverty line through time.

Thus, micro-financing scheme is designed to provide credit for women and unemployed youth to create income generating activities there by contributing towards poverty reduction. One of the micro financing institutions is AdCSI which operates its activities in Addis Ababa city administration territory.

By creating employment opportunities for the unemployed and by increasing the production capacities of those who were self employed in the informal sector, the scheme has contributed positively to rise in household's income by giving focus on women borrowers.

With greater effect for men micro credit has contributed positively towards improved access to educational facilities but contributed positively towards improved access to women for medical facilities as well as children schooling. Likewise, participation in micro-credit program had a positive effect for men.

Though the effect of credit scheme in beneficiaries' socioeconomic condition becomes positive, AdCSI hasn't achieved its ultimate objective in urban poverty reduction. Because the information gathered from respondents in Yeka sub city shows that the very poor segment of the society tend to be ignored. The clients profile clearly indicated that higher number of respondents 95.8% had their own income before loan. Among them 85.1% had average monthly income greater than Birr 534 which doesn't categorize them in the very poor segment of the society. In addition the mean of average monthly income Birr 839 before loan indicates that the very poor were not properly outreached.

Provision of micro finance service for the urban poor is aimed at enabling the poor to participate in economic activities; due to easily spending nature of money borrowers can use the loan for non productive and non targeted activities. Borrowers have different reasons to apply for a loan but the reason a loan is not the main issue but rather the use of loan and what percent of the loan is invested is an important point in the utilization of credit. The investigation made supports that most of respondents use their loan for productive purposes. Out of the total sampled borrowers, 76.7% of respondents use the loan for productive purposes such as petty trade, embroidery, metal and woodcrafts etc. in addition, the percent of loan used for the intended purpose also shows a positive impact, i.e., 23.3% of respondents use more than half of the entire loan they took for the intended purpose.

Micro finance actually does not accessibly need to charge a subsidized interest rate, but accessible credit with quality service. Market based interest rates help the institution to improve sustainability, and enable expansion to reach more poor people. Significant number of sampled borrowers 31.7% reported that the interest rate is high and 47% of respondents said moderate and only 16.7 borrowers put the interest rate as low the rest 4.7% of respondents disclosed that they don't know the amount of rate. The interest rate is higher than the formal banks and that becomes questionable. The other factor that can affect poor borrowers is loan size irrespective of the business they made or intended to make. Out of the total sampled borrowers 52% are satisfied with the loan size, but 48 % reported as smaller and low loan size.

The other dimension of poverty alleviation role through micro finance program is its impact on women empowerment for example decision making in the family. Women's decision making participation could be enhanced by increasing their economical strength in the family. AdCSI has given priority to women in the provision of financial services. Currently in the institution women accounted 52% of the total borrowers. The investigation also supports that out of the total sampled borrowers 64.3% were women.

Micro finance programs enable the poor to save through breaking the assumption that the poor cannot save. If the institutions are appropriately structured and provided demand-oriented saving products, the poor will contribute savings. AdCSI provides both voluntary and compulsory savings, and it pays an interest rate of 6%. The saving operation policy of AdCSI is encouraging and large amount of savings are mobilized. However, the institution needs more promotional work to make the saving strategy a success and transparency about the rate paid should provided to borrowers.

The task of provision of micro-finance is intended to reduce poverty level through enabling the urban poor to active participants in income generating activities. In addition, it provides employment opportunities through helping the urban poor to be self employed. Accordingly, in Yeka sub city out of the total respondents 89% respondents

reported the trend of their employment opportunities have been improved since they have joined the credit program. Though most borrowers are mainly middle class the change in their lives is encouraging.

Putting the opportunities and outcome of micro-finance could not be a guarantee to conclude that it has only positive impact. AdCSI clients were also asked about the challenges and opportunities that exist. Accordingly, among the main challenges are lack of personal guarantee, short repayment time and delay of service were the major ones in that order.

6.2 Recommendation

Based on the above conclusions, the data analyzed, and the problems identified in the previous chapters, the following recommendations are forwarded.

1. Poverty is one of the major obstacles of development. A country which has large number of poor people and its poverty level is deep-rooted needs integrated effort to achieve development. Hence the government, NGOs, financial institutions and individuals (the poor) must work in co-ordination. The government should provide appropriate legislative support for urban poor lending; provision of selective guarantees indemnifying institutions against defaults. NGOs should participate in intermediation between financial institution and urban poor. Financial institutions like commercial Banks must collaborate in providing loan for microfinance institutions. The poor also do their share by utilizing loan for the targeted purpose and repaying it that they take from microfinance institutions.
2. Provision of significant information is important. Information relating to loans, deposits, interest rates charged, and repayment rates and time should be clearly explained to clients; and this would be possible if there is integrated and efficient management.

3. AdCSI has some opportunities that should be encouraged, but borrowers also put some challenges such as lack of personal guarantee, short repayment period and delay of service that need some corrective strategies. The institution is not recommended to lend money without money guarantee but the salary scale borrowers requested for guarantee should consider the capacity of borrowers.
4. AdCSI's policy to give priority to women has a promising result in involving large numbers of women in the program. Hence the institution should continue strengthening its policy to make women more beneficiaries from the program to accelerate poverty reduction. Because women are more dedicated than men to be engaged at any type of work so as to support themselves and their families.
5. In general AdCSI should not only mainly concerned with disbursing large amount of loan and mobilization of savings but as a development partner of the government, it should give attention to outreach the urban poor who have the lack of access to formal finance (bank) through providing different types of services, conditions and terms at reasonable interest rates.
6. Borrowers should be able to view microfinance institution as their partner in their development. Hence, borrowers should try to invest their loan for the intended productive purpose to enhance productivity; and participating indifferently economic activities that can help them to repay their loan.
7. Last but not the least, borrowers should respect the rules and regulations of the institutions particularly relating to repayment; and as citizens, they should know their responsibility and right to use the service. Moreover borrowers should try to change their attitude towards credit, and try to invest their loan on productive activities rather than bridging of other debts they had previously.

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Declaration

I, the undersigned, declare that this thesis is my original work, which has not been presented for a degree in this or any other university; and all sources of materials used in the thesis have been duly acknowledged.

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