

**The Impact of Microfinance services on clients in Addis Ababa:
In The Case of Addis Credit and saving Institution**

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**Submitted to Addis Ababa University school of Business &
Public Administration.**

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case of Addis Credit and saving institution**

By

Tofik Musema

**A Thesis submitted to the Office of Graduate Programs of Addis Ababa
University in Partial fulfilment of the requirements for the Degree of Master of
Science in accounting and finance**

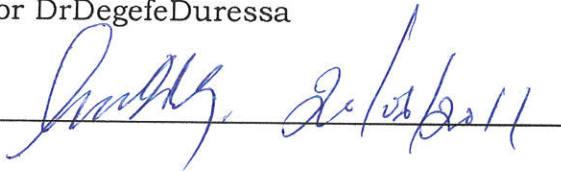
June 2011

Statement of Certification

This is to certify that Tofic Musema has completed his Msc Thesis work entitled Impact of microfinance services on clients in Addis Ababa: In the case of Addis credit and saving institution Under my supervision, in my opinion, this work is the original effort of the candidate and suitable for the submission in partial fulfillment for the requirement for award of Degree of Master in Accounting and Finance.

Name of the supervisor Dr Degefe Duressa

Signature and date

 2/12/2011

STATEMENT OF DECLARATION

I, Tofic Musema, declare that this study entitled “The impact of microfinance services on clients in Addis Ababa: In the case of Addis credit and saving institution”, is my own work. I have carried out independently the research work with the guidance and support of the research Advisor.

This study has not been submitted to any degree/diploma in this or any other institution. It is done in partial requirement of the M.Sc Degree in Accounting and Finance.

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Acronyms

ACSI	Amhara Credit and Savings Institution
ADCSI	Addis credit and saving Institution
AIMS	Assessing the Impact of Microenterprise Services
BRDB	Bangladesh Rural Development Board
CGAP	Consultative Group to Assist the Poorest
DECSI	Dedebit Credit and Savings Institution
FDG	focus group discussion
IDA	International Development Association
MF	Microfinance
MFI	Microfinance Institution

MDG	Millennium Development Goals
NBE	National Bank of Ethiopia
NGO	Non-governmental Organization
USAID	United States Agency for International Developme

ABSTRACT

In Ethiopia, several micro finance institutions have established and have been operating towards resolving the credit access problem of the poor particularly to those participants in the petty business. However, whether microfinance programs are bringing about desired changes is debatable and some argue that microfinance has been pushing the low-income people further into poverty.

In light of this, this paper attempts to look at the impact of Addis credit and saving institutions services on its clients'. In order to achieve this end the study assesses the interventions impact on ADCSI clients and the financial performance of the institutions while serving the poor.

Quantitative and qualitative data were collected from the institution and its clients to test the following variables: creation of Employment, income generation, asset formation, fulfillment of basic needs and financial sustainability. Furthermore, in order to examine the financial performance of the institution while serving the poorest 5-year financial statement of ADCSI is analyzed.

The study finds that the services of ADCSI are benefiting its clients; there is a significant difference between new and veteran clients in terms of fulfillment of basic needs, increased income, and asset formation and the difference is attributed to MF participation. In addition, the study reveals that ADCSI is financially and operationally self-sufficient.

Key Words: *Microfinance intervention, poverty alleviation, financial self-sufficiency*

CHAPTER ONE INTRODUCTION

1.1 Background of the study

It is often argued that the financial sector in low-income countries has failed to serve the poor. With respect to the formal sector, banks and other financial institutions generally require significant collateral, have preference for high income and high loan clients, and have lengthy and bureaucratic application procedures. With respect to the informal sector, money lenders usually charge excessively high interest rates, tend to undervalue collateral and often allow racist and/or sexist attitudes to guide lending decisions.

The failure of the formal and informal financial sectors to provide affordable credit to the poor is often viewed as one of the main factors that reinforces the vicious circle of economic, social and demographic structures that ultimately cause poverty (Dr.M.Jhangir,2009).

As partial response to this failure, over the past two decades, there has been a significant growth in what can be termed 'microfinance'.

Microfinance refers to financial services that target low-income clients, particularly women. Since the clients of microfinance institutions (MFIs) have lower incomes and often have limited access to other financial services, microfinance products tend to be for smaller monetary amounts than traditional financial services. These services include loans, savings, insurance, and remittances. Microloans are given for a variety of purposes,

frequently for microenterprise development. The diversity of products and services offered reflects the fact that the financial needs of individuals, households, and enterprises can change significantly over time, especially for those who live in poverty. Because of these varied needs, and because of the industry's focus on the poor, microfinance institutions often use non-traditional methodologies, such as group lending or other forms of collateral not employed by the formal financial sector.

Microfinance services – as opposed to formal banking financial services in general – are retail financial services that are relatively small in relation to the income of a typical individual. Specifically, the average outstanding balance of microfinance products is not greater than 250% of the average income per person (GNI per capita) (Wilson, 2003).

Ethiopia is one of the least developed countries. The per capita income of the country, though it showed improvement in recent years, is only USD 330 as of the end of 2009 (World Bank 2010). This is very little money to cover daily meal, let alone health, education and other emergency expenses, which make the poor vulnerable to unforeseen illness expenses and others. There is also 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 complete primary, secondary, and tertiary education, respectively. Moreover, this unemployed population is increasing from time to time as the population of the country is increasing (World Bank, 2010).

Countries' experience also indicates that the poor households are the main participants in some kind of informal sector ranging from small petty trading to medium scale enterprises (Jean-Luc, 2006).

In addition, this sector uses intensive labor force and 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.

Several studies noted different causes for poverty in a country. Some argued that the cause of poverty in developing economies among other things is that the poor does not have access to credit for the purpose of working capital as well as investment for its small business.

To this end, many developing economies including Ethiopia have developed and have been providing credit to the poor through microfinance schemes. The experience of several Asian, African as well as Latin American countries could be a typical example for this (Meyer, 2002).

In Ethiopia, several micro finance institutions (MFIs) have established and have been operating towards resolving the credit access problem of the poor particularly to those participates in the petty business.

Within this in mind, the current study attempts to look at the impact of Addis credit and saving institutions on its clients'. The study aims to assess the institution's impact on clients and its financial performance.

Addis Credit and saving institution has been established in accordance with proclamation NO.40/88 in 2000 by six shareholders in order to give full support to micro and small-scale business operation in Addis Ababa. Currently the institution has 10 branch offices, 99 service delivery posts and opening other branches in areas where there is high demand for its services .since its establishment the company has been giving mainly credit, saving and counseling services. Its experience in the area has given the chance to develop different

services like third party fund management .ADCSI has been improving its policies from time to time to make it adjustable to the external environment and make its services convenient to clients and those working with the institution.

1.2 Statement of the Problem

"Hey, mister, what are you looking for under that light?"

"My keys. "

"Why, did you lose them there?"

"No, I lost them across the street. "

"Then why don't you look for them across the street?"

"Because the light's better over here." (Aesop's fables, 2009)

It is an old joke, but it aptly illustrates the current state of the practice related to impact measurement on microfinance services. The microfinance movement exists to alleviate poverty. Yet the only performance indicators used to gauge the effectiveness of microfinance programs measure the profitability of the lending institution and the quality of its portfolio. They do not tell us whether our clients become less poor due to the services we provide.

Why great deals of researchers solely rely on these financial performance measures if they do not tell us if we are achieving our objective? Because they are much easier to calculate reliably. We spend our time investigating the well-lit areas, while the object we are searching for remains in the dark (Susy Chest on, 1999).

The argument of those researchers who use financial performance measures of MFI as a proxy of client welfare impact is that assessment of impact of the MFIs on their clients is a very difficult and controversial way of evaluating the institutions performance (Meyer, 2002).

"Because of the methodological difficulties and high costs involved in conducting robust studies, it has been argued that the most important evidence of impact should be whether or not MFI clients continue to use the services. If they do, they must value the benefits received more than the costs of obtaining them. Impact analysis, therefore, should focus on understanding the impact on MFIs of programs offering services to the poor rather than impacts on the clients of such services"(Meyer, 2002; 5).

A counter argument in that most of the industry requires substantial amounts of public funds at least in the form of start-up costs if not in the form of long-term subsidization. These funds have opportunity cost (they have alternative uses for society) so policy makers need evidence as to whether or not clients are receiving direct measurable benefits from microfinance. If not, the fund should be allocated to other means to fight poverty (khandar, 2005).

The study conducted by Esayas Bekele (2009) in the amhara credit and saving institution indicated that the financial sustainability and good portfolio management could not serve as a proxy for positive impact on the clients. A great deal of clients named the institution as “Eyeyu Gedel” which means heading towards hell knowingly, because the institution is merciless in case the clients face problem of repaying their debt and they are forced to sell their oxen and houses.

Moreover, the empirical evidence of those studies that focus on clients' welfare after the microfinance intervention using cross sectional data sets is very mixed. while some studies have found that access to microfinance interventions by the poor has a positive large, and permanent effect on living standards ,other studies have found that poverty is not reduced through provision of microfinance services . These latter studies also found that through the provision of credits the poor households simply became poorer through the additional burden of (further) debt.

Microfinance impact assessment practitioners are focusing on financial sustainability of the providing institution rather than its direct impact on program's beneficiaries and the findings of those studies, which center on the client's welfare, are inconclusive. Therefore, the inconclusiveness of such empirical evidences and existence of methodological flaws in the study area motivates the researcher to conduct this study. In addition, there is no adequate study conducted in Addis Ababa. Therefore, this study will attempt to contribute to the knowledge base by exploring the impact of microfinance services on clients in Addis Ababa.

1.3 Objectives of the study

The main objective of this study is to assess the impact of micro finance services on clients or borrowing households.

Under this main objective, five main themes are addressed. The first is the direct impact of the intervention on employment and income of borrowing households' .The second is the indirect impact of microfinance intervention on clients' assets. It is anticipated that the participation in the microfinance program increases assets, tangible as well as intangible, of households through increasing their income. The third is the indirect impact of microfinance on the fulfillment of basic needs : it is expected that the participation in

microfinance programs improve the fulfillment of basic needs.(i.e. food availability, education, shelter , and health) through increasing their income. The fourth objective is to study whether participation in the microfinance program reduces the subjective poverty of the participants. The fifth and the final objective of the study is to examine the institutional self-sustainability of the MFI under study in order to see whether impact in economic wellbeing of clients correlates with financial self-sufficiency of the institution.

1.4 Hypothesis of the study

The main hypothesis of this study is that microfinance interventions will have a positive impact on the program's participants. The poor households in urban areas fail to acquire the minimum amount capital that is required to improve their employment status due to lack of collateral. Microfinance programs provide poor households with this minimum capital to improve their employment status .Through improving employment status poor households increase their income and thus ,improve the fulfillment of their basic needs .gradually this households graduate from below to above poverty line i.e. Poverty of the borrowing households alleviates. Furthermore, the MFI under study is expected to be financially sustainable while serving the poorest. Within this main hypothesis, five sub hypotheses will be tested namely:

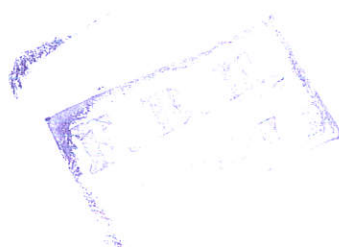
1. The membership in microfinance programs improves the employment status and increases income of poor households.
2. Membership in microfinance programs increase entitlement of the poor households through increasing their asset base.
3. The membership in the microfinance programs improves the fulfillment of the basic needs of the participants i.e. membership in the program increases access to education of their children, health facilities, housing condition and food availability.

4. Participation in the microfinance program reduces the subjective poverty of the participants.
5. Institutional financial sustainability is possibly correlated with positive impact on life of MFI clients.

1.5 Research questions

In order to test the aforementioned hypothesis of the study the following research questions are designed:

1. The first part of the analysis was designed to find out the effects of microfinance programs on employment, income and asset of the program participants. For this purpose, answers to the following research questions would be sought :
 - Does a microfinance service improve the employment status of the participants?
 - Does the participation increases income of the participants?
 - Does the participation increases the asset bases of the participants?
2. The second part of the analysis will try to find out whether the participants in the microfinance improves the fulfillment of basic needs of the participants .Therefore the following research questions are designed in order to achieve this end :
 - Is there increase in expenditures of the participants for education and health services?
 - Does the participation in the microfinance program increase the availability of food for the participants?
 - Does the participation in the microfinance improve the quality of the participant's shelter?



3. The third part of the analysis will try to find out whether the intervention reduces the poverty of the households and to achieve this end the following questions will be answered in this part:
 - Does the participation in the microfinance programs reduce the subjective poverty of the participants?
4. Finally, is the MFI under study financially self-sustainable? to address this questions the following indicators will be tested:
 - The profitability of the institution
 - Operational Self-Sufficiency
 - Financial Self-Sufficiency
 - Loan Portfolio Profitability
 - Loan Officer Productivity

It is believed that the above research questions would be enough to identify the impact of microfinance services on employment, income, assets base, basic needs, and poverty of the participants and the financial sustainability of the MFI under study.

1.6 Significance of the Study

Most of previous studies conducted try to see the impact of MFI on clients by just analyzing the financial performance of the MFI under study and inferring the outcome on the clients. However, this study will be conducted by directly addressing (encompassing) the participants of the program, in addition to the examining the financial performance of the institution under study. Therefore, its contribution will be immense. Besides The findings of this research will be helpful to service providers, microfinance promoters, and development agencies to improve microfinance products and services and rationalize the investment in the sector.

1.7 Scope and Limitations of the study

The study focuses only on Addis credit and saving institution (ADCSI) which is operating in Addis Ababa and it, only considers the issue of microfinance impact by evaluating micro financing on beneficiary's socio-economic condition. In microfinance impact, assessment data should be collected at more than one point in a time in order to compare changes in important variables between two or more points in a time through a longitudinal research design. The data used in this study, however, will be gathered in -one point at a time (cross sectional) because the research is limited to one year due to academic calendar. Therefore, a comparative survey design that alternatively allows comparison of existing clients is employed.

1.8 Organization of the Study

The research is organized in five chapters. General introduction is given in the first chapter. Review of Literature in the field is discussed in the second chapter. In chapter three research design and methodology is presented. Following this, chapter four contains results and discussion. Finally, conclusions and recommendations are presented in the fifth chapter.

CHAPTER TWO LITERATURE REVIEW

2. 1 Theoretical literature

2.1.1 Microfinance and poverty

The first step in conducting an evaluation of a microfinance program is, perhaps surprisingly, to ensure that you are conducting an evaluation of a microfinance program. This seems obvious, but is not, since the definition of “microfinance” is less than clear. Hence, the definition of Microfinance institutions proposed by some authors and organizations are seemingly different from one another. However, the essence of the definition is usually the same, in which microfinance refer to the provision of financial services primarily savings and credit to the poor and low income households that do not have access to commercial banks (Dean Karlan, 2007).

The term micro finance refers to small - scale financial services primarily credit and savings provided to people who farm or fish or herd and who are engaged on small enterprises or Micro enterprise's and to other individuals and groups where goods and services are produced (Robinson, 2001) .

Microfinance, according to Otero (1999, p.8) is “the provision of financial services to low-income poor and very poor self-employed people”. These financial services according to Ledger wood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Dunn Elizabeth (2001) defines microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks.” Therefore, microfinance involves the provision of

financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

In the literature, the terms microcredit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. Sinha (1998, p.2) states, “microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc)”. Therefore, microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services.

Poverty

Poverty can be defined as a condition wherein a person cannot satisfy his or her basic needs, namely, food, shelter, clothing, health and education. (Hulme, 2000). Fundamentally, poverty is a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society (Susy Cheston, 1999). Here many definitions of poverty depend on the context of the situation and the views of the person giving the definition. Here are some classifications of (way of viewing) poverty from various angles:

Absolute vs. Relative poverty

Absolute poverty

Absolute poverty refers to a set standard, which is consistent over time and between countries. The World Bank defines extreme poverty as living on less than US \$1.25 (PPP) per day, and moderate poverty as less than \$2 a day. However, a person or family with

access to subsistence resources, e.g. subsistence farmers, may have a low cash income without a correspondingly low standard of living - they are not living "on" their cash income but using it as a top up. It estimated that "in 2001, 1.1 billion people had consumption levels below \$1 a day and 2.7 billion lived on less than \$2 a day (Mckaya and Lawson, 2002).

Relative poverty

Relative poverty views poverty as socially defined and dependent on social context, hence relative poverty is a measure of income inequality. Usually, relative poverty is measured as the percentage of population with income less than some fixed proportion of median income. There are several other different income inequality metrics, for example Gini coefficient or the Theil index (Mckaya and Lawson, 2002).

Relative poverty measures are used as official poverty rates in several developed countries. As such, these poverty statistics measure inequality rather than material deprivation or hardship. The measurements are usually based on a person's yearly income and frequently take no account of total wealth. The main poverty line used in the OECD and the European Union on "economic distance", a level of income set at 60% of the median household income.

Subjective vs. Objective Poverty

Subjective poverty

Subjective approach to poverty measurement is based on individual self-perception of its own economic welfare. The Economic Ladder Question can be used about the individual complete economic welfare. This type of poverty measurement helps to understand

people's self-rated level of welfare. "Imagine a 9-step ladder where on the bottom first step, stand the poorest people, and on the highest ninth step, stand the richest people. On which step are you on today?"(Klarita, 2008 p.27).

Objective poverty

The key idea here is that the poverty line should be set at a level that enables individuals to achieve certain capabilities, including a healthy and active life and full participation in society. In practice this almost certainly would imply that the commodity-based poverty line would rise as a country becomes more affluent, because the minimum resources needed to participate fully in society probably rises over time?"(Klarita, 2008 p.28).

In MF, impact assessment the welfare (economic status) of the clients after the intervention should be examined. To achieve this end using the relative, absolute and objective approaches needs gathering data from clients and using this methods in the context of illiterate MF participants seems difficult. Due to the relative simplicity of the subjective approach, this study adopts it.

2.1.2 Key characteristics of microfinance

It may be helpful to enumerate some of the characteristics associated with what is perceived to be "microfinance." There are at least nine traditional features of microfinance:

1	Small transactions and minimum balances (whether loans, savings or insurance)
2	Loans for entrepreneurial activity
3	Collateral-free loans
4	Group lending
5	Target poor clients
6	Target female clients
7	Simple application processes
8	Provision of services in underserved communities
9	Market-level interest rates.

Table 2.1 key characteristics of MF (source: Dean Karln, 2007).

The above table shows that key characteristics that are assumed as a feature of MF. It is debatable which of these characteristics, if any, are necessary conditions for a program to be considered microfinance. The first feature, small loans, is likely the most necessary, though lending itself is not essential; some microfinance programs focus on mobilizing savings (although few focus entirely on savings without engaging in any lending). Although MFIs often target micro entrepreneurs, they differ as to whether they require this as a condition for a loan. Some MFIs visit borrowers’ places of business to verify that loans were used for entrepreneurial activities while other MFIs disburse loans with few questions asked—operating more like consumer credit lenders. In addition, some MFIs require collateral or “collateral substitutes” such as household assets which are valuable to the borrower but less than the value of the loan. Group lending, too, while

common practice among MFIs is certainly not the only method of providing micro-loans. Many MFIs offer individual loans to their established clients and even to first-time borrowers. Grameen Bank, one of the pioneers of the microfinance movement and of the group-lending model has since shifted to individual lending (Dean Karln, 2007).

Most, but not all, microfinance programs focus on women. Women have been shown to repay their loans more often and to direct a higher share of enterprise proceeds to their families. Worldwide, the micro credit summit campaign reports that 80% of microfinance clients are female. However, the percentage of female clients varies considerably by region, with the highest percentages in Asia, followed by Africa and Latin America, with fewer women served by MFIs in the Middle East and North America. this focus on the poor and women along with the simple application process and the provision of financial services in clients' communities together form financial *access*, that is, the provision of financial services to the unbanked—those who have been excluded from financial services because they are poor, illiterate, or live in rural areas.

Finally, microcredit loans are designed to be offered at market rates of interest such that the MFIs can recover their costs, but not so high that they make supernormal profits off the poor. This is an important concept because institutions which charge high interest rates can be scarcely cheaper than the moneylenders they intended to replace, and institutions which charge subsidized rates can distort markets by undercutting other lenders which are attempting to recover their costs. This has implications for impact assessments because the less clients must pay in interest the more they could be expected to show in increased income. If we compare the impact of institutions which fall outside of “normal” microfinance interest rates we could end up drawing unreasonable conclusions about the effectiveness of one program versus another, since each type of

program attracts different clients and imposes different costs on their borrowers.

Note that sustainability of an organization (as defined roughly by *de facto* World Bank policy) does not require each product or target market is sustainable, but rather that the organization as a whole is sustainable. Thus, organizations could charge lower interest rates for indigent or particularly poor individuals, as long as there were sufficient profits from lending to the not so poor to be able to cross-subsidize such a program. Such programs may, in the long run, be sustainable (if the initially subsidized program leads to client loyalty and a long-term relationship with the MFI) (Dean Karln, 2007).

2.1.3 The products of the microfinance industry

Microfinance institutions give various kinds of services in addition to saving and lending (credit) the basic ones are discussed as follows:

A) Loan products

The MFIs provide a variety of loan products which can be broadly categorized into agricultural loans, micro-business loans, micro and small enterprise loans (micro-bank loans), employee loans, package loans (food security loans), and housing loans.. Many of the loans are group loans followed by individual loans and cooperative loans.

B) Leasing products

MFI provide loans for purchasing equipment to members of the youth organized mainly in construction cooperatives. The MFIs own the title to the equipment until its purchase costs are completely repaid with interest. The leasing products have given new opportunities for the youth and others that do not have the capital or the collateral to invest.

C) Saving products

Saving services enable clients to bank surpluses that can be withdrawn during lean seasons. Savings also help to prevent the occurrence of food insecurity by enabling households to purchase food during off seasons or during bad production years. There are two types of saving products, namely voluntary and compulsory saving (forced saving), provided by the MFIs.

D) Micro-insurance

Micro-insurance products such as crop insurance, health insurance, home insurance, price insurance, etc allow clients to manage and mitigate risk. For example, death of client/breadwinner and loss of animals.

E) Money transfer

The money transfer product of MFIs includes local payments and transfer services between family members and others from one area to another.

F) Administration of pension fund

This is another product where MFIs would manage the pension fund of regional governments. MFI deliver the monthly pension of civil servants and military pensioners in regions respectively (Woleday Amha, 2008).

2.1.4 Difference between Commercial Bank and MFIs

Area	Commercial bank	Micro finance Institution
Focus	Profitability , Market Share , All segment of customer	A sustainable credit system for economically disadvantaged people
Customer Acquisition	Banks mostly enroll customer through branches	MFIs have stage-wise strategy-village meetings, formal groups, training of member of groups on financial management and then providing credit line.
Products	Banks have a basket of retail product that cover savings, credit remittance etc.	MFIs specialize in credit .The product is predominantly a graduated credit line with recovery by 50 week.
Procedures	The procedures are primarily multi-tired, record-oriented and resultantly, lengthy at times.	MFIs have a universally identical procedure for their customer for internal management.
Customer Service Mode	Customer access branches	MFIs access customer at the location of their inhabitation.
Source of Funds	Combination of owned and Borrowed Capital	MFIs operated on Borrowed fund
Location of Operation	Banks have a formula to determine viability of a branch. This determines the	MFIs operate with families that do not have steady and

	availability of the bank in geographical location	small credit lines from banks. They do not operate on the basis of geographical location
Cost of Operation	Banks have mechanism that cross subsidizes operating cost of several sets of services and products .Branch viability and business per staff is the strategy area of focus. Cost-income ratio of Banks is	MFIs incur high costs on manpower. Business per staff cannot grow beyond a point because the quality of customer contact is the key to the high repayment rate in micro-credit.MFI operations on customer servicing mechanisms are reflected in cost-income ratio of MFIs

Table 2.2 differences between commercial banks and microfinance (source:Murdoch, J. 1998).

As the above table indicates commercial banks and MFIs have difference in terms of profitability, customer acquisition method, type of products, customer service code, location, operation and cost of operation.

2.1.5 Models of microfinance interventions

Despite the lack of data on the sector, it is clear that a wide variety of implementation methods is employed by different MFIs. The Grameen Bank (2000) has identified fourteen different microfinance models of which three of them are discussed as follows:

A) Rotating Savings and Credit Associations

These are formed when a group of people come together to make regular cyclical contributions to a common fund, which is then given as a lump sum to one member of the group in each cycle (Grameen Bank, 2000). This model is a very common form of savings and credit, the members of the group are usually neighbors and friends, and the group provides an opportunity for social interaction and is very popular with women. They are also called merry-go rounds or Self-Help Groups.

B) The Grameen Solidarity Group model

This model is based on group peer pressure whereby loans are made to individuals in groups of four to seven (Berenbach and Churchill, 1997). Group members collectively guarantee loan repayment, and access to subsequent loans is dependent on successful repayment by all group members. Payments are usually made weekly (Ledgerwood, 1999). According to Berenbach and Guzman (1994), solidarity groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as the Grameen Bank, who use this type of microfinance model. They also highlight the fact that this model has contributed to broader social benefits because of the mutual trust arrangement at the heart of the group guarantee system. The group itself often becomes the building block to a broader social network.

C) Village Banking Model

Village banks are community-managed credit and savings associations established by NGOs to provide access to financial services, build community self-help groups, and help members accumulate savings (Hulme and Mosley, 1996). They have been in existence

since the mid-1980s. They usually have 25 to 50 members who are low-income individuals seeking to improve their lives through self-employment activities. These members run the bank, elect their own officers, establish their own by-laws, distribute loans to individuals and collect payments and services (Grameen Bank, 2000). The loans are backed by moral collateral; the promise that the group stands behind each loan. The sponsoring MFI lends loan capital to the village bank, who in turn lend to the members. All members sign a loan agreement with the village bank to offer a collective guarantee. Members are usually requested to save twenty percent of the loan amount per cycle (Ledger wood, 1999). Members' savings are tied to loan amounts and are used to finance new loans or collective income generating activities and so they stay within the village bank. No interest is paid on savings but members receive a share of profits from the village bank's re-lending activities. Many village banks target women predominantly, as according to Hulme (1996) "the model anticipates that female participation in village banks will enhance social status and intra household bargaining power"

2.1.6 Impact Assessment

In its broadest sense, impact assessment is the process of identifying the anticipated or actual impacts of a development intervention, on those social, economic and environmental factors, which the intervention is designed to affect or may inadvertently affect. It may take place before approval of an intervention (*ex ante*), after completion (*ex post*), or at any stage in between. *Ex ante*, assessment forecasts potential impacts as part of the planning, design and approval of an intervention. *Ex post*, assessment identifies actual impacts during and after implementation, to enable corrective action to be taken if necessary, and to provide information for improving the design of future interventions (Anton Simanowitz, 2001). A distinction can be made between two separate but interlinked levels:

Internal monitoring and evaluation for ongoing learning, through for example the integration of specific impact indicators into existing management information systems, which makes information immediately available to staff;

External impact assessment, often-involving independent investigators. Such assessments produce reports for specific purposes, such as poverty impact assessment, regulatory impact assessment, social impact assessment or health impact assessment. Certain types of *ex ante* assessment may be part of the approval process for certain types of intervention, including environmental impact assessment and economic impact assessment (cost-benefit analysis). These may contain their own *ex post* monitoring activities. Separate *ex post* assessments may be undertaken or commissioned for any particular intervention or set of interventions, to provide fuller information than may be available from routine monitoring and evaluation.

2.1.7 Use of impact assessment

As the impact agenda has opened up to incorporating the needs of a greater range of stakeholders, it has become clear that the impact research can be used for a wide range of purposes. Impact assessment enables funders to validate their investments via quantitative information about the changes taking place, in addition to improving understanding of the causes of changes and their relation to MFI mission and objectives. It enables the MFI staff and board to provide managers with performance information in relation to organizational mission and goals. In addition, it facilitates understanding of individual clients, households, and businesses, and illuminates community dynamics and needs. From the perspective of MFI management, it provides market research information that can feed into products and services. Finally, and perhaps most importantly, impact

assessment can ensure greater accountability to clients, building on their direct input for ways to improve the MFI services available.

For MFIs to take a more active role in the impact assessment process it is important for them to understand the key questions and decisions that need to be made in the design process, and to be active in the implementation and analysis stages. It is this active involvement that leads to learning at client, staff and organizational levels (Anton Simanowitz, 2001).

Stakeholder	Usefulness
Donors	Allow funders to validate their investments Quantitative information about the size of the changes taking place
Donor/MFI staff & board	Demonstrate meeting Mission and Objectives Improve understanding of the causes of changes and the relation between changes and the work of the MFI
MFI staff and board	Monitor meeting of Mission and Objectives Provide managers with information about performance in terms of organisational mission and impact What are the general directions of changes taking place? Are changes different amongst MFI clients compared to the wider community? What impacts or changes are taking place in relationships

	between clients and other household members, other MFI clients, or other community members?
MFI staff and board; clients	Organisational learning & improving practice Improve understanding of individual clients, households businesses, and their communities and the inter-relationships between the different levels Improve MFI's understanding of differing needs of different sections of the community eg. the very poor.
MFI management – product development & methodology	Provide market research information to improve products and services Improve MFI's responsiveness to clients' <i>expressed</i> and <i>underlying</i> needs Provide information which helps managers understand what services their target clients need
MFI management – Staff and	Management tool to manage & improve impact Provide managers with information about staff performance Improve understanding of client livelihoods and processes of

product delivery management	change which are taking place
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Table 2.3 Usefulness of Impact Assessment to different stakeholders (Source: Anton Simanowitz, 2001)

2.1.8 Methods of evaluating Impact of MFI

The impact of microfinance initiatives can be seen from three different but interrelated aspects. These are economic, socio-political/cultural and personal/psychological. It means that large MFIs reaching hundreds of thousands of clients may have three aims:

1) Bringing changes in economic growth in a region or sector, 2) Bringing a shift in the political aspect of a particular district, and 3) improving borrowers' sense of self. These impacts could be evaluated from two perspectives. The first one is the financial system approach (the intermediary school) and the second one is the client-oriented impact analysis approach (*the* intended beneficiary school). The first one focuses on changes in the organization (MFI) and its operations. And as such, its proxy indicators are outreach and sustainability of the program (Hulme, 2000). However, what clearly indicates 'who benefits' and 'how' is the intended beneficiary school. To enhance the validity of the findings this paper adopts both approaches.

There are different arguments concerning how to evaluate the performance of microfinance institutions and their impact on clients. Befekadu (2007), Citing from Zeller and Mayer (2002), indicated that there is what is called "Critical Micro-finance Triangle" that we need

to look at to evaluate Micro-finance institutions based on their objective. The triangle can be depicted as:

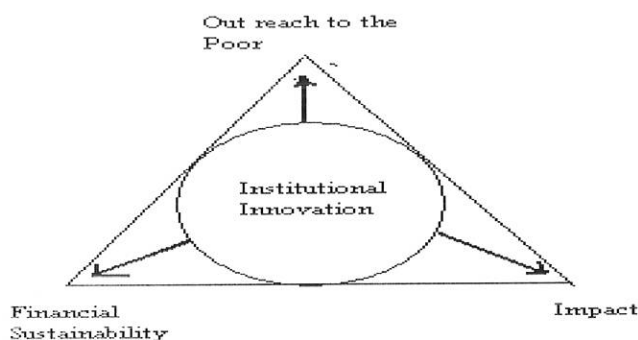


Figure 2.1 critical microfinance triangles source: *Befekadu B, (2007)*

Here, the corners of the triangle represent *outreach to the poor*, *financial sustainability* and *welfare impact*. Moreover "Performance criteria are required for each objective and all three must be measured thoroughly to evaluate micro-finance performance," noted Meyer (2002). Further, he indicated, "The inner circle in the figure represents MFI innovations in technology, policies, organization, and management that affect how well each objective is met. The outer circle represents the environment within which micro finance operates that also affects performance. This environment broadly includes the human and social capital possessed by the poor, the economic policies of the country, and the quality of the financial infrastructure that supports financial transactions. Improvements in the environment make it easier for MFIs to reach the three objectives."(Meyer, 2002).

Let us review in detail how we measure the micro-finance institutions are meeting the objective of outreach to the poor, financial sustainability and improve welfare of the poor.

A) Measuring outreach to the poor

Outreach at glance means the number of clients served. However (Yaron.J, 2002) noted that outreach is multidimensional concept. In order to measure outreach we need to look in to different dimensions

"The first is simply the number of persons now served that were previously denied access to formal financial services. Usually these persons will be the poor because they cannot provide the collateral required for accessing formal loans, are perceived as being too risky to serve, and impose high transaction costs on financial institutions of the small size of their financial activities and transactions. Women often face greater problems than men in accessing financial services so number of women served is often measured as another criterion.... Although difficult to measure, depth of poverty is a concern because the poorest of the poor face the greatest access problem. Some measure of depth of outreach is needed to evaluate how well MFIs reach the very poor. Finally, the variety of financial services provided is the criterion because it has been shown that the poor demand and their welfare will be improved if efficient and secure savings, insurance, remittance transfer and other services are provided in addition to the loans that are the predominant concern of policy makers."

Navajas et al. (2000), similarly, indicated that there are six aspects of measuring outreach: *depth, worth of users, cost to users, breadth, length and scope*. Where, depth of outreach refers to "the value the society attaches to the net gain from the use of the micro credit by a given borrower," (Navajas et al, 2000:335).

This measure is to identify the poor clients. Because, the poor are the one who fail to get access to get credit from formal financial institutions since they fail to signal that they can

repay their loan (Conning, 1997). And, worth of outreach to users refers to "how much a borrower is willing to pay for a loan," (Navajas et al. 2000:335). Similarly, cost of outreach to user refers to "cost of a loan to a borrower," (Navajas et al. 2000:335). These costs to users might consists of prices like interest rates and various payments that they have to pay, which could be revenue to the lender, and other loan related transaction costs like expenses on documents, transport, food, taxes, etc. (Navajas et al. 2000:336). Finally, "breadth of outreach is the number of users...length of outreach is the time frame in which a microfinance organization produces loans," and "Scope of outreach is the number of type of financial contracts offered by a microfinance organization," (Navajas et al. 2000:336).

It is argued that length of a loan matter, because if the microfinance institutions support the poor only in the short run it will hamper the social welfare of the society in the long run. In the case that when the client of the microfinance institution knows that he/she will not receive additional loan in the future they would have no incentive to borrowers to repay their loan (Navajas et al., 2000).

Studies suggest that many microfinance programs have attained the objective of reaching a large number of clients with small amounts of resources. Women are believed to be the main participants and beneficiaries of microfinance programs in many countries. Yet, many women lack enough power within households to use their loans to improve productivity and welfare (Goetz and Gupta, 1996).

B) sustainability

The other indicator of performance of a micro finance institution is its financial sustainability. Different literatures noted that financial sustainability is one of the areas that we need to look at to assess the performance of micro finance institutions. Meyer (2002)

noted that the poor needed to have access to financial service on long-term basis rather than just a onetime financial support. Short-term loan would worsen the welfare of the poor (Navajas et al., 2000). Meyer (2002) also stated that the financial unsustainability in the MFI arises due to low repayment rate or un-materialization of funds promised by donors or governments. According to Meyer (2002), there are two kind of sustainability that we could observe in assessing MFIs performance: Operational self-sustainability and financial self-sustainability.

Operational self-sustainability is when the operating income is sufficient to cover operational costs like salaries, supplies, loan losses, and other administrative costs. And financial self-sustainability (which he referred as high standard measure) is when MFIs can also cover the costs of funds and other forms of subsidies received when they are valued at market prices.

Meyer (2002,p.41) indicated, "Measuring financial sustainability requires that MFIs maintain good financial accounts and follow recognized accounting practices that provide full transparency for income, expenses, loan recovery, and potential losses."

There also are some dispute on the link between financial sustainability and outreach to the poor. According to some (Christen et al. 1995; Otero and Rhyne 1994), cited in Meyer (2002), outreach and financial sustainability are complimentary this is because as the number of clients increase MFIs enjoys economies of scale and hence reduce costs which help them to financial sustainable. On the other hand, Hulme and Mosely (1996) argued that there is inverse relationship between outreach and financial sustainability. Here the argument is higher outreach means higher transaction cost in order to get information about creditworthiness of clients and hence make MFI financially unsustainable.

Including credit in the production function can be used to assess impact of MFIs. However, Scholars like Yaron.J (1992) critic that it is wrong because this kind of assessment involves complications; probably it could be difficult to sort out loan effects from technical assistance.

Regarding indicator of financial sustainability, Khandker et, al. (1995) pointed out that loan repayment (measured by default rate) could be another indicator for financial sustainability of MFIs; because, low default rate would help to realize future lending.

c) Welfare Impact

The model given below specifies the linkages of variables involved in welfare impact studies.

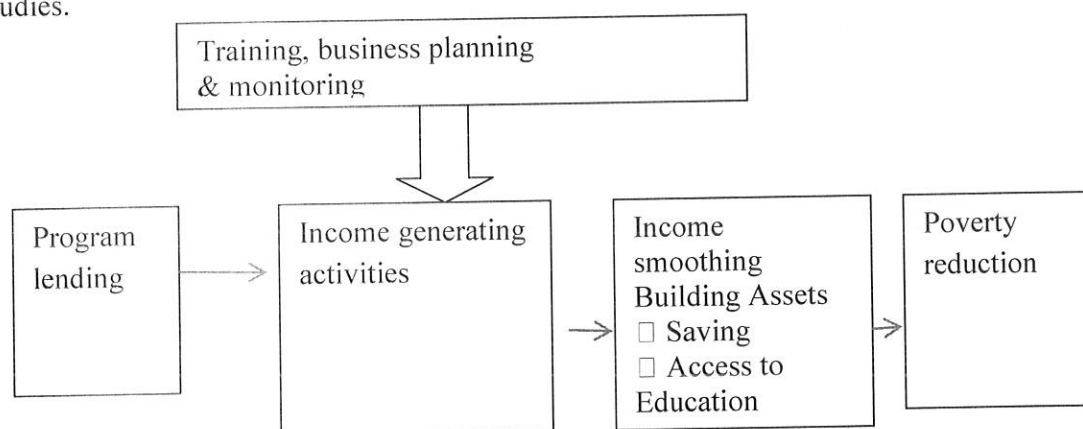


Figure 2.2 linkages of MF variables (Source: - Adapted from Hulme, 2000)

The above model indicates that the independent variable is the program lending. The mediating variables indicate that there are modified behaviors and practices over a period. These behaviors are depicted under the idea that clients will engage in income generating activities that would help them smooth there, otherwise, meager incomes, accumulate assets, save more, send their children to schools, and have a say on matters that affect their

and their families' lives etc. Training, business planning & monitoring are other intervening variables.

Welfare impacts of the services of MFIs are also argued to be another indicator to evaluate the performance of the institutions. As indicated at the beginning of this paper, one way or another, the objective of MFIs is reducing poverty. Hence, which imply that we need to access the impact of the microfinance programs on reducing poverty to evaluate their performance. As defined in World Bank (2000/01) report poverty is viewed as lack of money, lack of adequate food, shelter, education and health and the poor are vulnerable to ill health, economic dislocation and natural disaster. According to Meyer (2002) this perspectives of poverty can be used to access the Impact of the MFIs on those who receives the services. Meyer (2002) also noted that assessment of impact of the MFIs on their clients is a very difficult and controversial way of evaluating the institutions performance. This is:

"Because of the methodological difficulties and high costs involved in conducting robust studies, it has been argued that the most important evidence of impact should be whether or not MFI clients continue to use the services. If they do, they must value the benefits received more than the costs of obtaining them. Impact analysis, therefore, should focus on understanding the impact on MFIs of programs offering services to the poor rather than impacts on the clients of such services. A counter argument in that most of the industry requires substantial amounts of public funds at least in the form of start-up costs if not in the form of long-term subsidization. These funds have opportunity cost (they have alternative uses for society) so policy makers need evidence as to whether or not clients are receiving direct measurable benefits from microfinance. If not, the fund should be allocated to other means to fight poverty, "(Meyer, 2002, p. 52).

Given the prevailing challenges, however, in the impact assessment process, several impact indicators are noted in literatures. Mostly, the impact indicators can be categorized as economic and non-economic benefits. Taking in to consideration the usefulness of each of the above methods of evaluating performance and impact on clients this study uses all of them so that the performance of the company under study, the company's service impact on clients(i.e. welfare) and the likely correlation between company's performance and welfare impact on clients is addressed.

2.1.9 Problems of control group

A range of difficulties confronts the practical implementation of impact evaluations based on control groups Hulme and Mosley (1996). In decreasing order of complexity these are:

1. *Sample selection bias*: the control sample may turn out not to be completely comparable, i.e. it fails to satisfy the criterion of "being like the treatment (credit recipient) group in all respects save that of not being a credit recipient".
2. *Misspecification of underlying relationships*: simple trend comparisons of target group and control group may obscure the causal processes at work; for example, there may be hidden relationships between the selected independent and dependent variable, or externalities, or variations over time in the structure of response of the target group to the treatment ("structural breaks").
3. *Motivational problems*: the target group and, especially, the control group may either refuse to reply or sabotage the impact assessment by giving intentionally false replies

Remedies

- In order to address the aforementioned control group problems this study uses clients of MF with less than one year rather than using nonmembers as control group, because new members are believed to have the same characteristics as that of veteran clients.

2.2 Microfinance Empirical literature

When constructing a framework for comparative impact assessment it is instructive to understand strengths and limitations of past studies. The field of microfinance provides evaluations that are both expansive in number and diverse in findings i.e. When one goes through the bulk of literature on the impact of microfinance, one can find quite different results, which are generally inconclusive. In some cases, microfinance is said to have brought positive impacts on the life of the clients. A growing database of empirical studies shows that microfinance has positive impacts to boost the ability of poor people to improve the conditions in which they live. Research works indicate that the poor have taken advantage of increased earnings to improve consumption levels, send their children to school, and build assets.

Microfinance brings about an overall reduction in poverty rates (Khandker, 2005; Barnes, 2001; Todd, 2000). For instance, household expenditure increases with participation (Robinson, 2001), especially in relation to food and clothing (Husain, 1988). Other studies show increase in business profitability.(Edgecomb & Garber, 1998); higher enrolment in school (Pitt & Khandker, 1998), including girls' enrolment (Todd, 1996; Chen & Snodgrass, 2001).; increase in household nutrition levels (Pitt et al., 2003); income

smoothing that helps guard against food shortages (MkNelly, 1998; Barnes, 2001), or household crisis (Todd, 2000).

Evaluations have also documented additional days of employment and job creation, for instance Woler Gary (2001) estimate just one microfinance institution (MFI) generates the equivalent of 17,414 full-time jobs in Peru. Moreover some studies have shown asset accumulation, including household ownership (Barnes et al., 2001), and productive assets like land and machinery (Todd, 2000); better access to medical care and even spill over and multiplier effects that impact non-participants living in villages with MF projects (Woler Gary, 2001).

In some other instances, microfinance is said to play insignificant role towards mitigating the Problem of the poor. But looking at the positive impacts, several studies indicate that microfinance allows poor people to increase their incomes by starting new enterprises or expanding existing ones. The argument is that through diversified sources of income, the people could be able to shield themselves against external shocks. Savings and micro insurance services could also allow poor individuals to plan for future expenses, cope with stochastic crises and cover unanticipated expenses. Studies of microfinance programs and their clients indicate the following impacts on poverty and hunger:

The most rigorous microfinance evaluation to date is a series of studies performed in Bangladesh by the World Bank economist Khandker. He teamed up with Brown University economist Pitt to conduct “the mother of all household surveys” (Khandker, 1998), which included microfinance participants from three separate programs, a control group of people in the same villages, and a control fixed-effect regression technique and land-holdings as an instrumental variable to estimate program impact, which was sizable by their estimations. And they indicated that microfinance has brought positive marginal

impacts on consumption in Bangladesh. They showed that microfinance has become a promising strategy to shield the poor from vulnerability through consumption smoothing as well as building assets.

Using the assumption of perfect targeting, they estimated that for every 100 taka lent to a woman and a man, household consumption increased by 18 taka and 11 taka respectively. The study also indicated that moderate poverty and ultra-poverty were reduced by 15% and 25% respectively for households in BRAC. The rate was even lower for old borrowers than new ones. This is to mean that number of loans was found to be important in impacting the life of clients positively.

NYU economist Morduch (1998) responded to the khandker's study with a strong critique of the model citing concerns with their data and the use of the instrumental variable. Using the same data as Khandker did, Morduch (1998) did not find the same result. Morduch noted that Khandker's eligibility threshold was flawed. Thus, he used an alternative approach and corrected for the selectivity biases. Eventually, he did not find an evidence to suggest that microfinance can reduce poverty *per se*. Using the difference-in-difference strategy, he found out that microfinance has proved to be a viable tool towards reducing vulnerability showing that consumption variability was 47%, 54% and 51% lower for eligible Grameen, BRAC and BRDB households respectively. However, he indicated the difficulty he faced to show whether microfinance could increase consumption levels or schooling as compared to control groups in contrast to what Khandker indicated. Pitt (1999) adjusted the model according to Morduch's criticisms, and he actually found a slightly larger program effect.

In another study, Khandker (2003) found out that microfinance is serving a useful purpose in benefiting the poorest segment of the clients and in reducing poverty in Bangladesh. The

result of his study was inconsistent with what Hulme and Mosley (1996) argued. He indicated that females are found to benefit more than males from microfinance services. But, the poor are found to spend much on food, not on other income-generating activities. According to Khandker, enhancing the skill of the clients is very important in addition to providing them with credit. The benefit of microfinance is evaluated from the perspective of meeting people's short-term problems as far as Khandker's analysis is concerned.

Khandker (2005) later augmented the findings through the use of panel data and a simpler model with fewer assumptions. The study found that in addition to improvements in nutrition and education, for every 100 taka lent to a borrower, household expenditure increased by 20 taka per year (Khandker, 2005)

Empirical Microfinance Impact Studies in Ethiopia

Microfinance has become a growing sector in Ethiopia. This is partly because of the demand created by the abject poverty in the country and encouraging policy atmosphere for the microfinance services as part of poverty reduction strategy. Accordingly, there have been a growing number of microfinance impact studies being conducted by academic institutions, microfinance associations, government agencies, and funding organizations and donors. As a result, it seems difficult to get all the impact studies undertaken by the host of actors and partners. However, some of the studies to which the researcher granted access have reviewed here.

Kassa (1998) in his study of impact of micro financing under the microenterprises projects scheme in southern Ethiopia ,has shown that before the credit scheme 1584 program participants were able to send 5504 children to school, while after the credit scheme (in the first cycle)1168 participants sent 5952 children to school. Moreover, in the second

credit cycle the number of children sent to school increased from 406 to 421 of 460 program participants. He also indicated that the growth in income, employment,

Consumption and medical expenditure of program participants after the loan has increased. According to him, the average income after the loan was greater than the average income before the loan in all rounds (in the first, second and third loan cycles).

Similarly, Daba (2004), in his study to examine the relationship between participating in micro financing and the improvement in living standards of the poor, he found that OCSSCO has made positive contribution towards improving the welfare of the program beneficiaries. He also argued that since the outreach is increasing as the years go by and the loan repayment performance has been 100% for several years, it is possible to argue that OCSSCO is contributing to poverty, reduction.

In addition to this, Berhanu (1999) conducted a research work on microcredit and poverty reduction based on a case study of POCSSBO in Addis Ababa. The main objective of the study was to identify the determinants of the loan repayment and the contribution of micro credit on poverty reduction by financing microenterprises and creating job opportunities. Based on his research results were that loan repayment is mainly affected by factors like type of activities, gender differential, wealth differential, the availability of other sources of income, the attitude of program participants towards loan repayment, the educational level of the program clients and the size of the loan.

He also found that health, education, and consumption expenditure have increased after the loan compared to that before the loan. Employment and household income have also increased after the loan. According to his study, access to health services educational facilities and nutritional status of the program clients have also shown some improvements.

He also stated that micro finance intervention has a positive effect towards poverty reduction. But he found unsatisfactory results for saving mobilizations, as the project did not attach the saving facility with its credit program or facility.

Oxaal and Baden (1997), also stressed that for credit and income generating programs to have a positive impact on women's empowerment they need to move away from a framework where women are the passive recipients of a service using borrowers group as the basis of social development activities the scope of credit programs can be broadened from the narrow focus on individual economic self, reliance to other activities, such as training in health. For instance, Wolday (2003) concludes that the microfinance industry in Ethiopia showed remarkable growth in terms of outreach. He states that the "MFIs have been successful in addressing the financial needs of the rural poor." Good repayment rates, mobilization of significant amount of savings from the poor, and promotion of food security among the poor were reported by the study.

Doocy et.al (2005) in their research on programmes of Wisdom Microfinance Institution in southern parts of Ethiopia suggested that microfinance programmes have important impact on nutritional status and well-being of female clients and their families. The paper noted that clients were significantly less likely to be food aid recipients than non-clients. It also reported success in reducing vulnerability to prolonged drought and food insecurity.

The paper by Fitsum and Holden (2005) indicated that the impact of participation in microfinance resulted in positive changes in per capital consumption expenditure but not statistically significant. The impact on off-farm income and children's education was statistically significant positive change. However, livestock holding is negatively correlated with participation in the microfinance.

In his study undertaken in Amhara Regional State, Getaneh (2004) found that even though microfinance programmes are expected to positively affect household economic portfolio, income, coping mechanisms against risks, empowerment of the poor, food security, and business profitability, the available evidence suggests little progress in this regard.

The findings of Mayoux (1998) shown that links between microfinance and women's empowerment are positive but limited by design, cost effectiveness in eliminating poverty, and a misplaced diversion of resources. The paper stated many women did not control loan use. Microfinance programmes in some cases create domestic tension between spouses, and many women focused on personal rather than social objectives. In connection with women's empowerment, Padma and Getachew (2005) reported positive impact of microfinance.

Tsehay and Mengistu (2002) reported more positive impact of microfinance on poor women in Ethiopia. They concluded that participation resulted in significant increase in household income. Women were said to be able to provide for the basic needs of their families; had control over resources; owned assets; able to cope up with risks; save more for future use; and increased empowerment, among other things.

According to Meehan (2000), services of Dedbit Credit and Saving Institution had a significant impact on increasing agricultural production, increasing trading activities, increasing income, food supply, child education, clothing and other necessities. The study concludes that the credit provision had a positive impact on alleviating poverty.

Asmelash (2003) said though not statistically significant, clients had higher income than non-clients did. He also reported more diversified income sources, building of key assets,

improved child education, increased access to health facilities and nutritional intake, and improved risk management capacity.

Other major empirical evidences in Ethiopia on the impact of microfinance and microfinance institutions performance are summarized in the following table:

Title and Authors	Methodology	Results
Tsehay & Mengistu (2002) The Impact of Micro finance Services among Poor Women in Ethiopia.	New borrowers as control group and frequent Borrowers (> one year) as treatment group. Only Women samples were taken. Cross-tabs and ANOVA were used.	Most women lack entrepreneurial skill. Still what the MFIs providing was only finance. Other aspects of assistance like business planning and monitoring, training etc are missing. The activities women are engaged are small and traditional like petty trading, pottery and basket making, which are less risky and have low return. Despite these shortfalls, positive impact has been observed in socio-economic empowerment of women in the study areas
Wolday (2000) Product Development in Ethiopia Microfinance Industry: Challenges and Prospects	Sustainability (measured in terms of generating enough revenues) and Outreach (measured in terms of the number of clients, loan size, percentage of loans to clientele below the poverty line, percentage of female clients, range of financial and nonfinancial services	Over a brief period, MFIs in Ethiopia have shown remarkable improvement in terms of loan outstanding and savings. The clientele served by the MFIs in Ethiopia are mainly the rural poor. About 44 percent of the clients of MFIs in Ethiopia are female, relatively higher outreach of MFIs by all standards of measurement. The two governments supported MFIs are ACSI and DECSI, which account for 80% of total clients in the industry. MFIs in Ethiopia have high repayment rate, which varies from 94 to 100 percent

	offered to the poor, the level of transaction costs levied on client satisfaction with the poor and the extent of to financial services.)	
Kejela (2005) Analysis of Financial Returns to Resources for Farm Enterprises in Central Zone of Tigray	Data were collected through focus-group discussions, key informant interviews, case studies and observations. For data analysis, proportionate pilling exercises were done, and financial returns to labor and capital were analyzed	While the rich constitute 13% of the total population in the area, the poor and destitute consist 41% and 20% respectively. The remaining is medium. Financial returns to labor and capital are positive for wheat, barley, horse bean production, goat and oxen fattening, irrigated onion and pepper production. Petty trade is of little importance for the household's income in the study area. Peer group collateral approach of credit service delivery needs to be replaced by another mechanism such as lending individual farm enterprises
Abreham (2002) "Loan Repayment and Its Determinants in Small-Scale Enterprises Financing in Ethiopia	Determinants of loan repayment performance using to bit model	Education, access to other sources of income, and related work experience prior to taking the loan were found to enhance loan diversion
Bekele <i>et al</i> (2000)	Logistic Regression	Borrowers who took larger loans were able to show better repayment performances. Ownership of livestock was also a positive

Micro financing: What Lessons to be obtained from Empirical Investigations:		factor affecting loan repayment performance. On the other hand, late disbursement of inputs was found to be a problem.
Padma M. and Getachew(2005) Women Economic Empowerment and Microfinance: A Review on Exercises of Awassa Women clients	200 women were randomly selected out of the total 1962 active clients. Simple percentages were calculated for the analysis	Some clients were able to send their children to private schools and build assets. However, lack of entrepreneurial skills is observed in the study area so much so that 63% of the respondents indicated low returns in business and marketing problems as major obstacles
Haileselassie (2005) Financial Sustainability of MFIs: A Case Study of SFPI and PEACE	Level of outreach to the poor and financial sustainability of the institutions were used for analysis	Both MFIs have achieved a good balance in terms of reaching the poor and women, repayment performance and increment in savings. Though these institutions are not financially self-sustainable, there is evidence that their progress is promising, but can achieve it with adjusted lending interest rates
Tassew (2005) The Impact of the Dedebit Credit and Savings Institution on Poverty Reduction and Community Development	Focus-group discussions involving 430 people were held. Cost-benefit Analysis of different economic activities were done for analysis	The most important activities that best fit into the current microcredit system in the region are petty trading, goat fattening and poultry development. Loan size needs to be Increased and repayment period needs to be lengthened to make income diversification work better.

Table 2.4 summary of MF empirical evidence in Ethiopia

2.3 Conclusion

Most (if not all) empirical microfinance impact assessment studies on Ethiopia and in other parts of the world reported positive changes in the lives of the clients. However, some of the changes observed were not significant. The positive impact of microfinance services on clients is a keenly debated issue as we have seen and it is generally accepted that it is not a silver bullet, it has not lived up in general to its expectation.

In summary, microfinance has been carried out to alleviate poverty by connecting the poor into productive economic circuit. This objective was expected to be attained by creating jobs, increasing income, diversifying income sources, availing better access to health and education, empowerment, and protecting against risks, among others. Practice, however, revealed that the outcomes of microfinance have been both the anticipated positive changes and in some cases unexpected negative results. These outcomes include generating sufficient income to exit the low-income people from poverty a Powerlessness; achieving slight economic objectives in reducing poverty; and pushing the participants further into poverty. Such mixed research findings cause prevailing doubt concerning positive impact of microfinance services. Furthermore, there is a great deal of difference in the research methodologies followed by different researchers to study the impact of microfinance services on clients.

Instead of including the clients on their study, some of the researchers use the analysis of financial statements of the institution to make impact inference on clients.

Therefore this study will try to narrow the aforementioned gaps in the area of microfinance impact assessment; in order to achieve this end a mixed research approach with direct microfinance beneficiary is used

CHAPTER THREE RESEARCH METHODOLOGY

3.1 Research Approaches

Over the last decade microfinance, impact assessment studies have increasingly moved away from single method approaches to multi-method or pluralist approaches. The central methodological question amongst impact assessors nowadays is no longer 'what is the optimal method for this study, but 'what mix of methods is most appropriate for this study and how should they be combined?' Depending on the level of resources available and the context impact studies increasingly seek to combine the strengths of different approaches.

Combining quantitative and qualitative methods is ideal because it will provide the quantifiable impact of microfinance as well as an explanation of the processes and interventions that yielded these outcomes (Judy L, 2000).

Impact assessment of microfinance tends to be associated particularly with "impact proving" using more positivist methods, or quantitative data collection, analyzed statistically (Hulme & Mosley, 1996).

The study uses quantitative research approach because Impact evaluation using quantitative data from statistically representative samples are better suited to assessing causality by using statistical methods or reaching generalizable conclusions

ions. Since this study is about the impact of finance (independent variable or intervention) on change employment status ,asset base ,income ,fulfilling basic needs and finally poverty level (dependent variable or outcome), the quantitative research approach is verily convenient to gather numerical (financial)data from the clients of the microfinance institutions and from the microfinance itself using appropriate quantitative strategy of inquiry.

The study also uses a qualitative research approach. The benefits of qualitative assessments are that they are flexible, can be specifically tailored to the needs of the evaluation using open-ended approaches. It can be carried out quickly using rapid techniques, and can greatly enhance the findings of an impact evaluation through providing a better understanding of stakeholders' perceptions and priorities and the conditions and processes that may have affected program impact (Judy L, 2000).

3.2 Strategy of inquiry and research methods

Microfinance institutions aim to reduce poverty and to check whether this objective is being achieved a cross-sectional survey impact methodology is used. This method compares veteran to new participants, and then calls any difference between these two groups the "impact" of the program. This approach have risen recently in popularity because it is cheap, easy to implement, and often encouraged by donors. United States Agency for International Development (USAID), through its Assessing Impact of Microenterprise Services (AIMS) project, encourages this methodology with its AIMS practitioner-oriented tools (Simanowitz, 2004).

According to Johansson and Rogaly (1997), impact analysis requires control

group. Control group is a sample of people similar to in every aspect, but who have only received a loan for the first time and who have not been members of the program for more than one year. It is used to compare with sample of clients that have received loan for more than two years. The control group approach is the most widely accepted and used approach to assess the impact of microfinance.

The AIMS approach is fully adopted for this study, involving both quantitative as well as qualitative data. The *quantitative assessment* is carried out by interviewing two types of clients: mature clients (>3 years) and new clients (<1 year). The differences between these two groups indicate the impact of the microfinance intervention.

The researcher gathers data from the clients of Addis saving and credit institution taking into account the specified research questions. Then the analysis compares employment, income generation, asset formation, fulfillment of basic needs and subjective poverty level between old and new members. The new members serve as a control group. If the mean asset formation for example, is higher for veteran members than new entrants, then the methodology concludes that participants in the microfinance program led to higher food consumption for its participants.

This approach is advocated because of two operational advantages: no need to identify and survey non-participants in order to generate a control group and no need to follow clients over time as in a longitudinal study.

In order to achieve this end the study uses a structured interview including both close and open-ended questions that were developed by USAID's AIMS project (2000) and CGAP poverty assessment tool (2003). To fit with the situation of the study area, some modifications are made. The interview is administered to the sample respondents of the study area.

In addition to gathering data from borrowers, using survey strategy of inquiry-structured interview is held with microfinance managers and documents are reviewed in order to insure the financial sustainability of the microfinance institution under study.

For the qualitative approach focus group, discussion (FGD) strategy of inquiry is used. This strategy of inquiry is a very popular form of qualitative analysis and involves active participation of sample respondents. FGD is a rapid assessment, semi-structured data gathering method in which a purposively selected set of participants gather to discuss issues and concerns based on a list of key themes drawn up by the researcher/facilitator (Kumar, 1987). It has become extremely popular because it provides a fast way to learn from the target audience. In MF impact assessment, focus groups have been used to obtain insights into target audience perceptions, needs, and problems, beliefs, and reasons for changes occurred overtime in the variables considered in the study.

3.3 Sampling Design

A sample design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample. Sample design may as well lay down

the number of items to be included in the sample i.e., the size of the sample.

Sample design is determined before data are collected (Kothari, 2004).

Among the different sampling techniques, the researcher employs stratified random sampling and simple random sampling. Stratified random sampling is a sample obtained by separating the population into non-overlapping groups, called strata and then selecting a simple random sample from each stratum. If a population from which a sample is to be drawn does not constitute a homogeneous group, stratified sampling technique is generally applied in order to obtain a representative sample (Kothari, 2004).

Table 3.1 sampling frame and sample size taken for the study

Term of Loan	Sampling frame			Sample Size		
	Sex			Sex		
	Male	Female	Total	Male	Female	Total
Less than one year	40	40	80	16	24	40
3 years and above	40	40	80	16	24	40
Total	80	80	160	40	40	80

Thus, from beneficiaries the researcher using the basics of this system takes 160 beneficiaries of the credit scheme as a sampling frame, 40 from each of the four microfinance branches in Addis Ababa under study. Firstly, based on sex the total population is divided into two groups (64 males and 96 females = 16 males and 24 females from each microfinance branch under study). Then after,

based on term of loan, the subjects of each group (the male and female population) are subdivided into two classes: those who took credit for less than one year and those who took credit for more than three years. Finally, four groups are formed. From each of these four groups 50% of the population (80 clients) is taken as a sample for the study. The sample is limited to 80 because of financial and time constraints.

Four groups of Clients (one group consisting of 6 clients from each branch) are formed for the focus group discussion.

3.4 Variables

Microfinance impact assessment is identifying that the programme led to observed or stated changes. To assess the changes, different indicators or variables are used based on the objective of the study and resources (financial and time) available. In this respect, in order to address the research questions further analysis is made taking into account the following variables:

A) Employment and income generation

Microfinance services are supposed to create employment opportunities in the informal sector and increase the income of the program's participants. The most direct outcome of microfinance participation is change in household income and business profits. MFIs usually work with clients who are engaged in the informal sector and not receiving regular wages.

B) Asset formation

One of the positive impacts of microfinance program participation is increase

in income and this in turn boosts the asset formation (asset purchase) capacity of the participants. Therefore, asset formation is one of the variables encompassed in this study. The manifestations of asset formation are: savings, purchase of business equipment's, household furniture and house improvement of the program participants.

C) Fulfillment of basic needs

The ultimate objective of microfinance service is alleviation of poverty. One of the indicators of improvement in poverty level is fulfillment of basic needs. Therefore, increased ability to send children to school, access to health facilities, and increase in food expenditure are used as pointers of fulfilling basic needs.

D) Subjective poverty alleviation

Subjective approach to poverty measurement is based on individual self-perception of its own economic welfare. This type of poverty measurement helps to understand people's self-rated level of welfare; therefore, it is one of the variables encompassed in this study.

E) Financial sustainability of the MFI

Microfinance providers always claim to serve the poor. However, it becomes a challenge to many microfinance providers to strike balance between providing financial services to the poorest and becoming financially sustainable at the same time. In this respect the institution's Profitability, Operational Self-Sufficiency, Financial Self-Sufficiency,

Loan Portfolio Profitability, Loan Officer Productivity and other indicators of MF performance are examined in the study.

3.5 method of data analysis

A statistical summary of field data is used to examine the impact of MFI's programmes. The method for analyzing the data includes test for statistically significant differences in the mean values between the veteran group and new group. To test statistical significance of the differences in the mean values of the two categories (veteran and new group) the data is analyzed using descriptive statistics such as ratios, percentage, means and standard deviations. Inferential statistics of t-test of independence is used, to establish relationship between the independent variable and other explanatory variables in condensing the data for interpretation. For the hypothesis testing, 95% confidence level (0.05 level of significance) is established. The data is analyzed using statistical tool called SPSS (statistical tool for social sciences).

In addition, in carrying out the qualitative data analysis, the mass of information is reduced and organized meaningfully by selecting and focusing on research questions giving attention to patterns and common themes on specific issue; deviations from the patterns, and the factors that might explain the deviations; and/or interesting stories that help illuminate the research questions. Finally, conclusions are drawn by stepping back to consider the meaning of the information and its implications in relation to the key research questions

Chapter Four Data Analysis and Interpretation

In this section, an attempt has been made to discuss how the services of Addis credit and saving institution impact its clients. Data used for the analysis regarding the institution's Clients is gathered through semi-structured interview, and focus group discussion with the clients of the MFI. 80 clients are encompassed in the study from four branches of ADCSI (60% female and 40% male).

In addition, the institution's officials are interviewed regarding the performance of their institution and its impact on clients and the financial statement of the institution, records and brochures of the institution were used.

This part of the study is divided into two major parts .The first part covers analysis and interpretation of data regarding the direct impact (welfare) of microfinance services of ADCSI on its clients. The second part covers analysis and interpretation of data concerning the financial performance of ADCSI.

4.1 Impact on the welfare of Microfinance program

Microfinance intervention is expected to have a positive impact on the welfare (living condition) of the program participants. The indicators (variables) of welfare improvement in this study are Job opportunity improvement, asset formation, improvement in income, fulfillment of

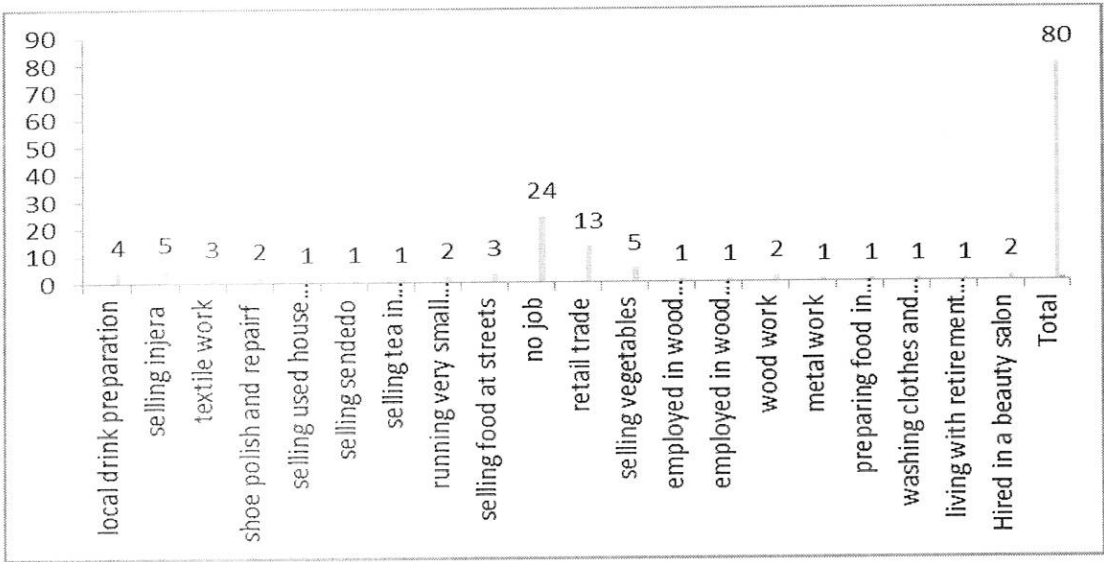
basic needs and reduction of poverty. Therefore, in order to test these variables data collected and analyzed as follows:

4.1.1 MF service Impact on employment creation and income generation

H-1: Membership in the microfinance programs improves the employment status and increases income of poor households.

The types of activities at which the clients were engaged as livelihood may indicate their living conditions`. Therefore, they were asked what their livelihoods were before they join loan programme of ADCSI in order to compare with their condition after joining the MF program, and their response is summarized figure 4.1 as follows:

Fig 4.1 respondent’s activities before MF program participation



Source: authors own computation based on data collected from MF

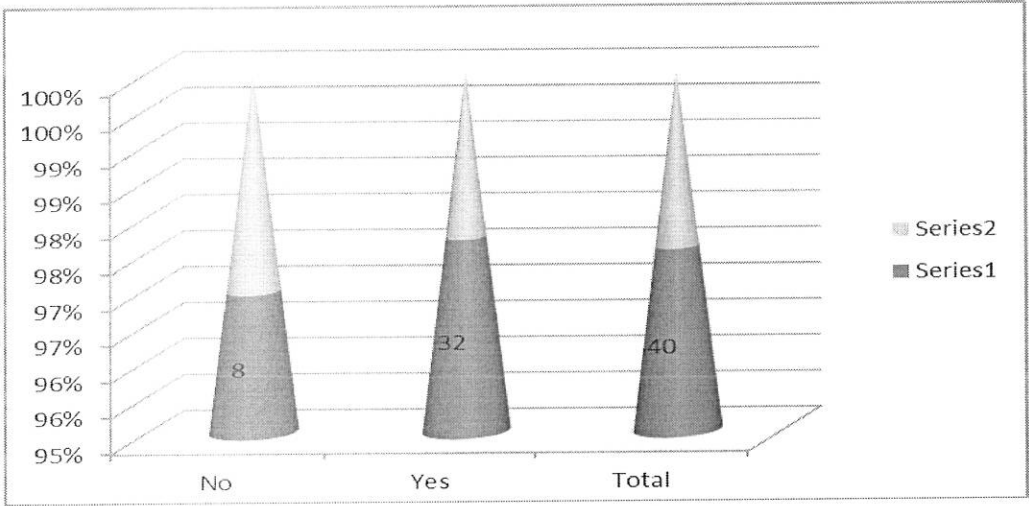
clients

As the above graph shows significant number of the clients was engaged in traditional activities and 24 of the respondents out of 80, (30% of the respondents) were job less before participating in the MF Program.

The aforementioned clients were asked about their employment status after joining the microfinance services and their response is summarized as follows in the following graph.

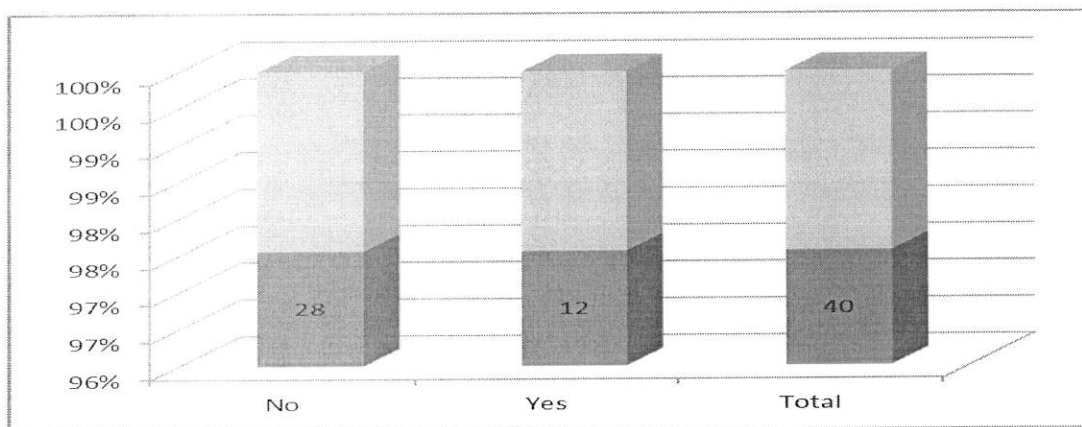
Do you think that your job/income condition is improved after the program participation?

Fig 4.2 veteran clients’ response about job opportunity improvement



Source: authors own computation based on data collected from MF clients

Figure 4.3 new clients response about job opportunity improvement



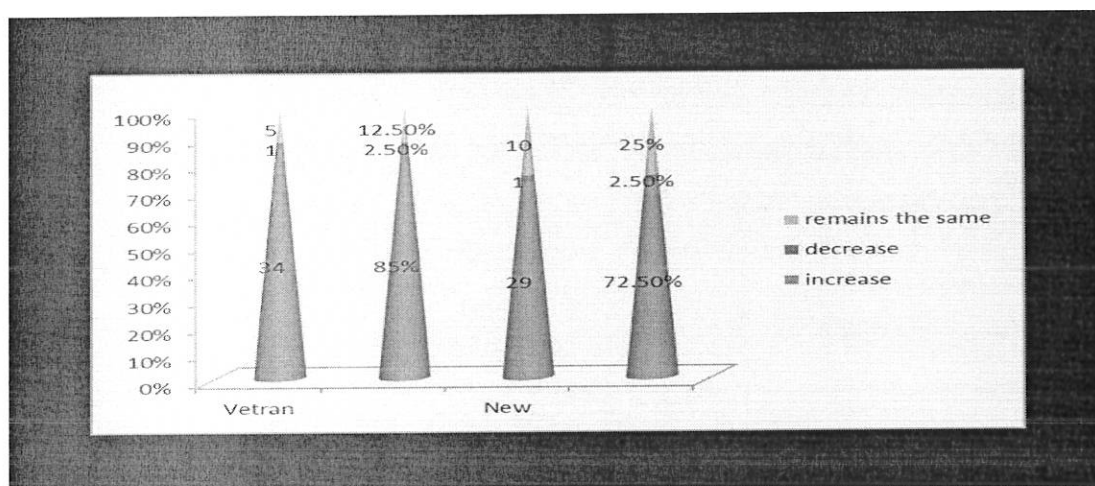
Source: authors own computation based on data collected from MF clients

The above figures indicated the fact that veteran (old clients) of the institution have improved their income and job opportunities better than new clients of the institution. Out of 40 veteran clients, interviewed 32 of them (75%) disclosed income and job opportunities improvement after joining the institutions program. On the other hand out of 40 new clients interviewed only 12 (30%) confirmed income and job opportunities improvement. This difference between new and old clients of the institution in terms of income and job manifests that the longer a client enjoys the services of the institution there is more positive impact on his /her life. Gary woler (2001) in his study reported that participation in MF program increases income and job opportunities and his finding is consistent with this study.

In order to strengthen the response of the clients regarding income and job opportunities improvement the following question was posed to them:

Did your over all income increase after the MF participation?

Figure 4.4 sample MF clients' response about income improvement



Source: Author's own computation based on data collected from MF clients

As per the above figure, 85% and 72.5 of old, and new client respondents respectively admitted that their income is improved after joining the MF program. 12.5% of old and 25% new clients said that there is no change in income in relative terms and one respondent from each group confirmed decline in income after program participation.

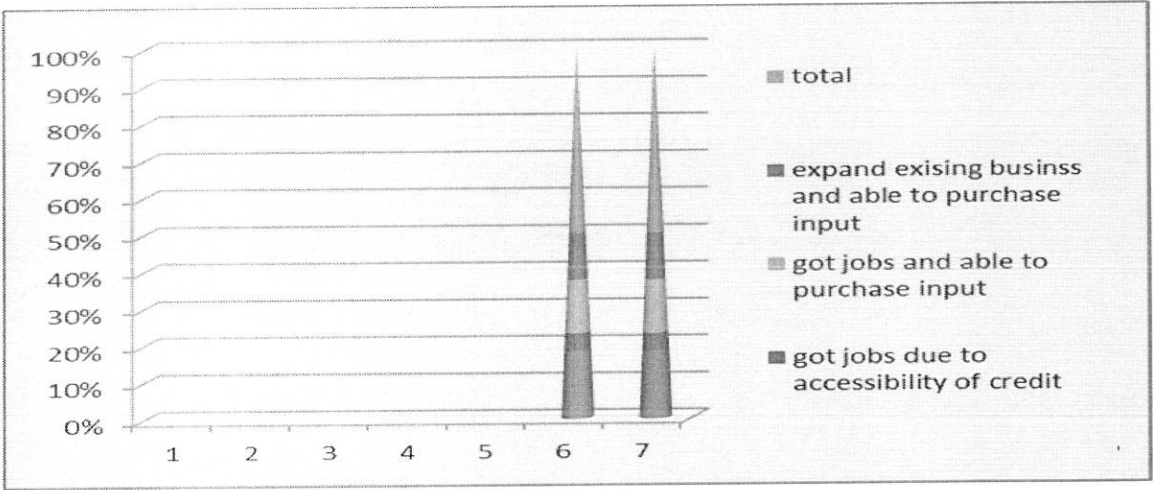
Those clients with income increment after joining the program used the credit for productive purposes like purchasing more inputs to expand the already started business or to start up new business; the author of this study informed this fact in the focus group discussion session in addition to the interview made to the clients.

On the other hand, those respondents who said no change in income indicted the fact that the loan granted by the institution is not adequate so no significant impact on their income. The two clients with decline income are used the money secured from the MFI for non-business activities or to resolve problems

of their household therefore they are expected to repay the loan from their business and it seems natural for their income to decline. The officials of the MFI under study admitted that they conducts continuous follow-up to make sure that the loan is used for the intended or proposed purpose but their attempt may not be always fruitful as is the case of the above two respondents. In general, 61 of the respondents (76%) disclose income improvement .Edgecomb & Garber (1998) in their study reported that participation in the MF program increases the income of the participants and this is consistent with the finding of current study.

How did your over all income increase?

Figure 4.5 respondents’ response about reasons of income improvement.



Source: Authors’ own computation based on data collected from MF clients

Both veteran (old) and new clients of the institution interviewed admitted the fact that they have improved their job and income by using the credit forwarded by the microfinance insinuation under study. In addition, 61.9 % of the clients who disclose income and job, improvement used the credit to

expand their existing business and 38.1 % of the clients used the loan to start up new business.

To make sure the likely spillover effect of the microfinance services the clients were interviewed whether they have hired labor in their activities or not as follows:

Have you used hired labor in your business activities?

Table 4.1 MF clients’ response about hired labor employment

	Veteran group		New group	
	Frequency percentage		Frequency percentage	
Yes	15	62.5%	17	67.5 %
No	25	37.5%	13	32.5%
Total	40	100%	40	100%

Source: Author’s own computation based on data collected from MF clients

As per the above table only 15 (37.5%) and 13 (32.5%) of the veteran and new clients respectively were managed to hire additional labor for their activities. In addition, there is no as such significant difference in terms of job creation for others between new and old clients. Those clients who disclosed as they have hired labor are engaged in professional activities like wood, metal, wood and metal, beauty salon, and decoration of clothes. The author of this study learned from FGD that usually those clients who used the credit for non-professional activities will not hire other people because of the nature of the activities in which they are engaged and the very small size of their business. This result shows the Spill over and multiplier effects of microfinance services on those

MF program non-participants, Woler Gary (2001) reported that MF service benefits not only program participants but also non-participants too, and this study obtained the same result.

4.1.2 MF service Impact on asset formation

One of the manifestations of positive impact of MF service is asset formation. The assets may be productive (income generating) or used for household activities. Therefore, to test the hypothesis the respondents were asked about this variable the data and analysis of it is presented as follows:

H-2: membership in microfinance programs increases entitlement of the poor households through increasing their asset base

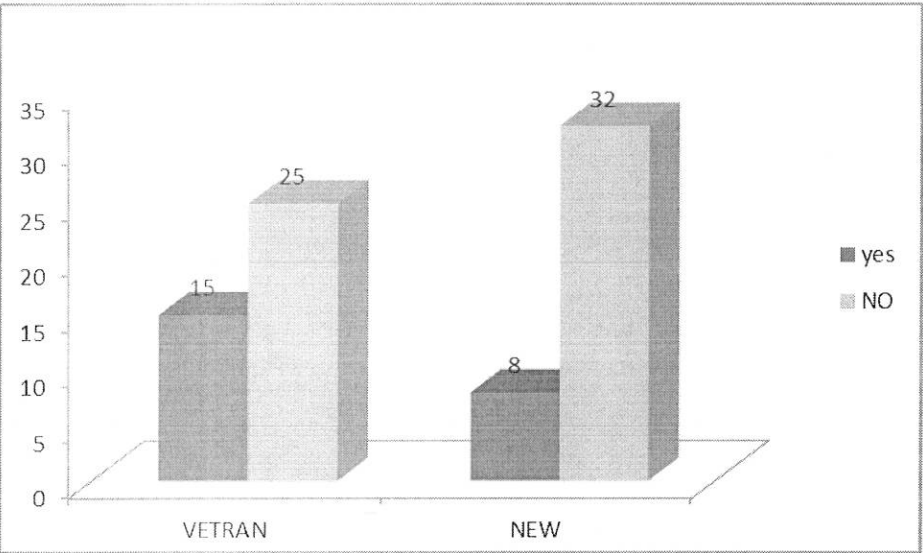
Asset formation, including building up of collateral for future loans, is among the key Indicators of microfinance impact. In other words, microfinance positively contributes to asset building. To test this claim in the context of ADCSI, qualitative and quantitative data have gathered.

Information gathered through qualitative method (Focus group discussion) shows that participation in the microfinance Program resulted in positive impact. Clients participated in the focus group discussion were asked what changes have occurred to their lives after the loans. One of the responses of the clients was that they have built their asset base with which they are making a living. For instance, a female focus group discussion participant said she was making a local alcoholic drink with borrowed pots and filtering utensils. Nevertheless, after first loan, she owned her own such utensils. Others also

spoke of purchasing better food and drinks making and serving utensils. It was also learnt from the group discussion that after repaying loans, the clients have goods in their small shops, which are sources of much confidence and sense of self-sufficiency though they did not have money in cash. Barnes et al (2001), and Todd (2000) in their study reported that MF program participants asset formation capacity is enhanced due to the intervention (credit) and this study also shows the same finding.

Did you improve your house after program participation?

Figure 4.6 housing condition improvements of respondents



Source: author’s own computation based on data collected from MF participants

As per the above graph, shows 37.5% and 20% of old and new client respondents respectively disclosed as they have improved their housing condition after joining the MF program. The house improvements are in the form of changing roofing, improving the walls, changing wood doors by metal

(French door) and painting the house. A great deal of respondents said that they have other priorities than improving their house. The above bar chart also shows that more veteran (old) clients improve their housing condition than that of new clients. Taking in to account this fact, we can boldly say that the positive impact of MF is also a function of time i.e. clients who took credit several times will benefit more than those clients who took credit just once.

Those clients that disclosed as they have improved their housing condition were asked the source of finance for housing improvement, and 12 of (52.2%) said access to credit and 11 or (42.8) of them said due to income improvement.

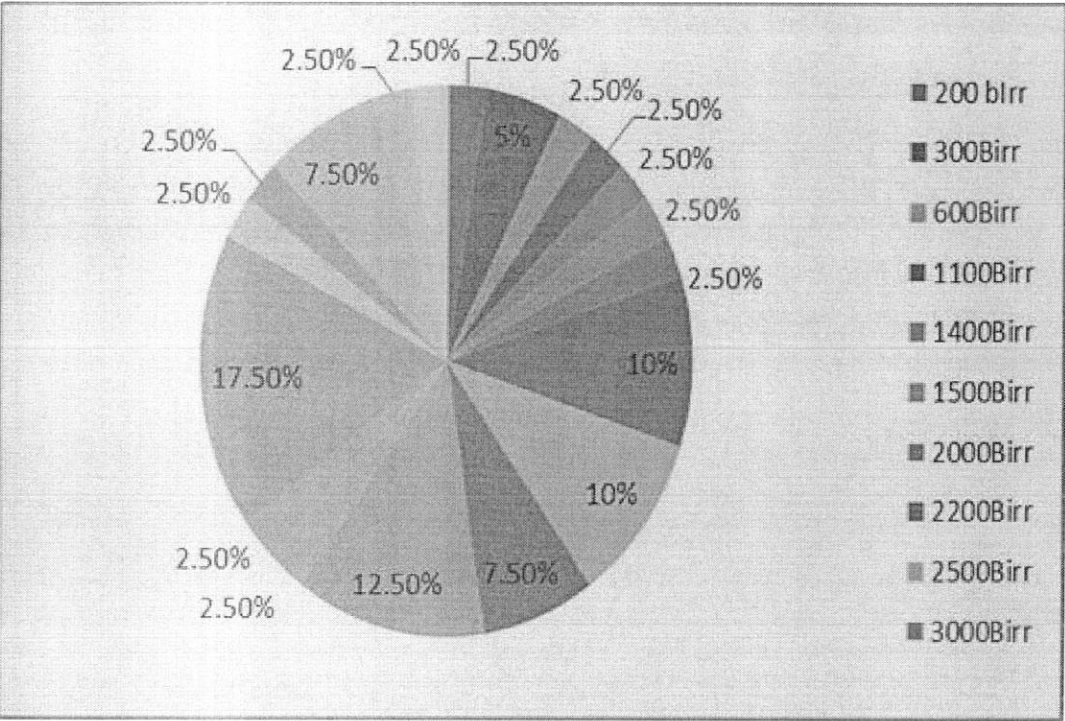
Table 4.2 MF clients’ response about sources of fund for house improvement

	Frequency	percent
Access to credit	12	52.2%
Improved income	11	42.8%
Total	23	

Source: author’s own computation based on data collected from MF participants

In order to have rigorous information regarding the impact of microfinance services on asset formation capacity of its clients, sample clients (both new and old) were asked about the estimated value of assets that they have purchased after the program participation and their response is presented in the following graphs :

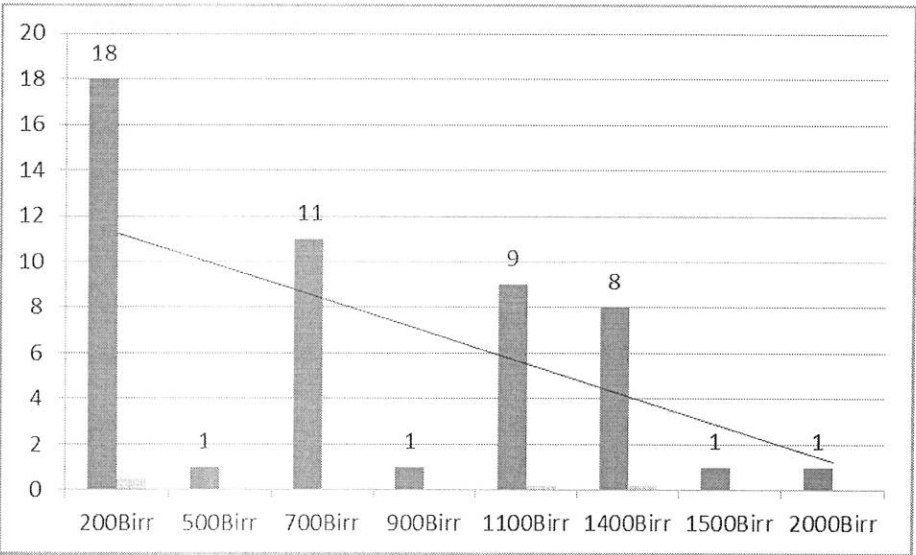
Figure 4.7-Estimated value of assets purchased by MF sample veteran



clients

Source: author's own computation based on data collected from MF participants

Fig 4.8-Estimated value of assets purchased by MF new sample clients



Source: author's own computation based on data collected from MF Clients

Table 4.3 summary of the difference between veteran and new clients in asset formation

	Mean	Mod	Media	Min.	Max.	Stad. dev.	Range	Sig(2 tailed)
Veteran group	Br 3,102	Br 4,000	Br 3,250	Br 200	Br 7000	Br1614.118	6800 Br	0.001
New group	Br 790	200 Br	800 Br	200 Br	2000 Br	Br 574.5	1800 Br	
Difference between new and vetran groups	2312 Br	2800 Br	2450 Br	0	5000 Br	1039.6 Br	5000 Br	

Source: author’s own computation based on data collected from MF participants

As per the above table, there is huge difference between the two groups in owning assets such as tables, chairs, radio/tape player, TV/deck, refrigerator, sofa, bed/mattress, and others like buying electrical cooking devices, and telephone services. Veteran (old) clients on average bought assets of 3,102 Birr and on other hand the new client’s average asset purchase is just 790 Birr (their mean have a difference of 2,312 Birr). The major likely justification for this big difference in asset formation is the number of times they have took the services of the MF institution and family size. Those clients with a big family size used their income for consumption expenditure rather than investing it in assets, the author of this study learns this fact from FGD made with MF clients.

However, to ensure whether this difference is a matter of chance element or it is statistically significant, we should look at the results of independent samples t test. To achieve this end t test was undertaken by SPSS at 95% confidence interval. The null and alternative hypotheses are:

H_0 : Asset formation of both groups is not significantly different.

H_1 : Asset formation of both groups is significantly different

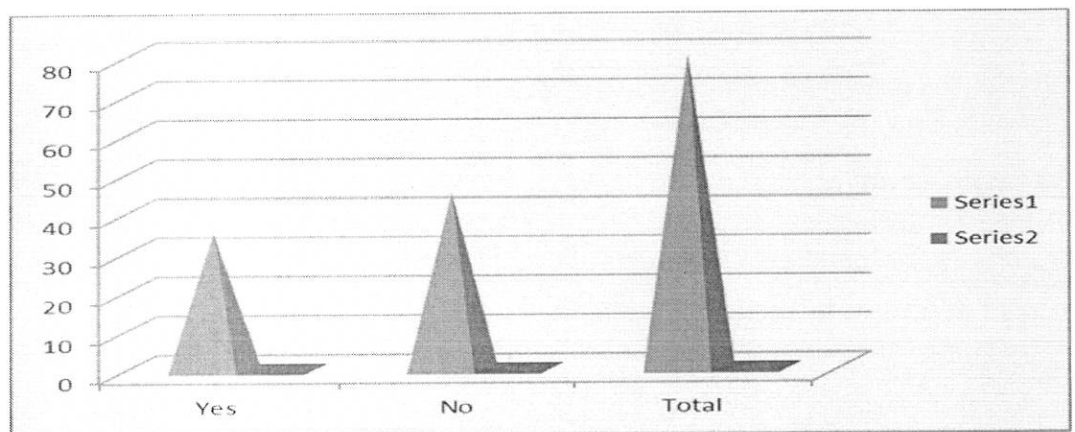
Decision rule: Reject H_0 if the significance value is less than alpha (null hypothesis) and do not reject it if it is greater than alpha (alternative hypothesis).

As indicated in Table 4.2 the mean difference in asset formation is 2,312 Birr and as per the decision rule, we reject the null hypothesis because 0.001 is less than 0.05 and their difference in asset formation is statistically significant.

For strengthening of the assumption that joining MF increases the asset formation capacity of the participants the clients were asked about their saving as follows:

Clients: Do you have saving account before program participation

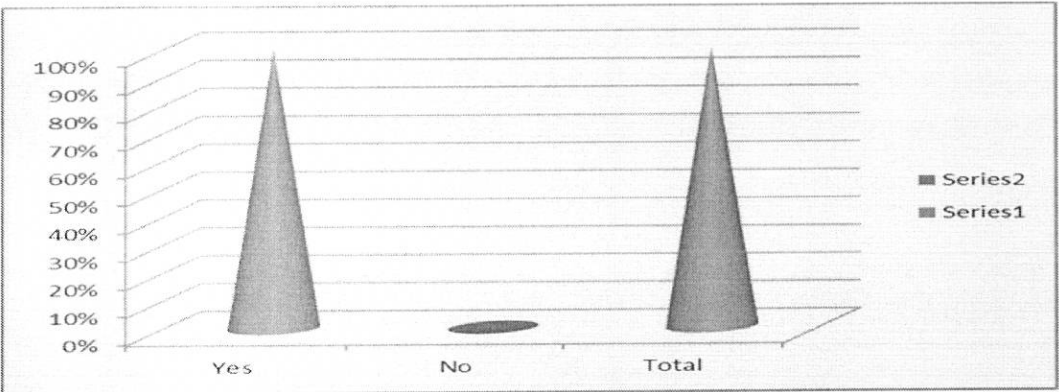
Figure 4.9 clients with saving account before MF program participation



Source: Author's own computation based on data collected from MF clients

Do you have saving account after program participation?

Fig 4.10 clients with saving account after MF program participation

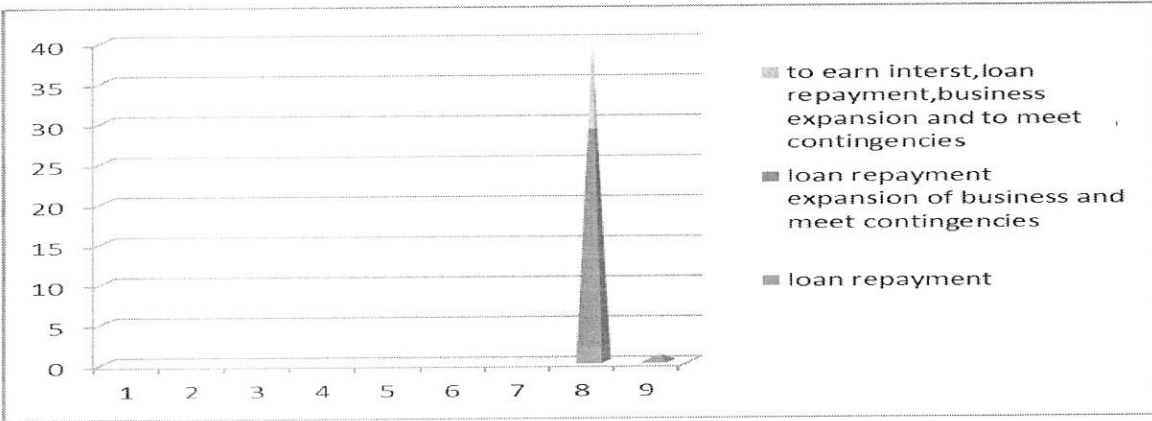


Source: Author’s own computation based on data collected from MF clients

Before Program participation, only 44% of the respondents have saving in the form of Eddir and eqquib and in both the interview and focus group discussion the respondents disclosed, as they have no bank account. However, after the respondents participated in the MF program all of them have saving in various forms. The respondents were asked about their way of saving as follows:

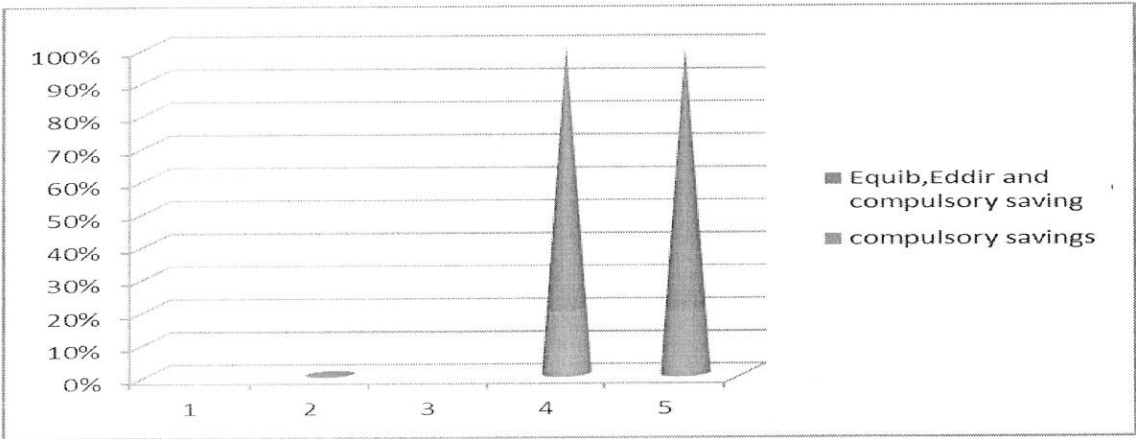
In what form do you save?

Figure 4.11 types of savings of veteran MF program participants



Source: Author’s own computation

Figure 4.12 types of savings of New MF program participants



Source: author’s own computation

Five percent of veteran respondents disclosed that they save compulsorily for loan repayment and 67.5% of veteran respondents said that they save for loan repayment (compulsory saving), for business expansion (in the form of eqquib) and to meet contingencies in the form of Eddir. Finally, the rest of (27.5%) of the old respondents disclosed that they save for loan repayment, to meet contingencies (Eddir), for business expansion purpose (Equibb) and to enjoy interest (for safety) in banks.

On the other hand, 20% of new client respondents save only for loan repayment to the MF and 80% of the respondents save to meet contingencies (Eddir), for business expansion (Eqquib) and for loan repayment. None of the new clients interviewed have a bank account. This result also shows the existence of difference in terms of saving between veteran and new group of clients

4.1.3 MF service Impact on fulfillment of basic needs

One of the expected positive impacts of microfinance intervention is increase in participants’ ability of fulfilling their basic needs like food, medical facilities and education.

H-3: The membership in the microfinance programs improves the fulfillment of the basic needs of the participants i.e. food availability, access to education of their children, and health facilities.

In order to test this hypothesis the following questions were forwarded to the respondents:

What was the approximate monthly consumption expenditure of your household before program participation?

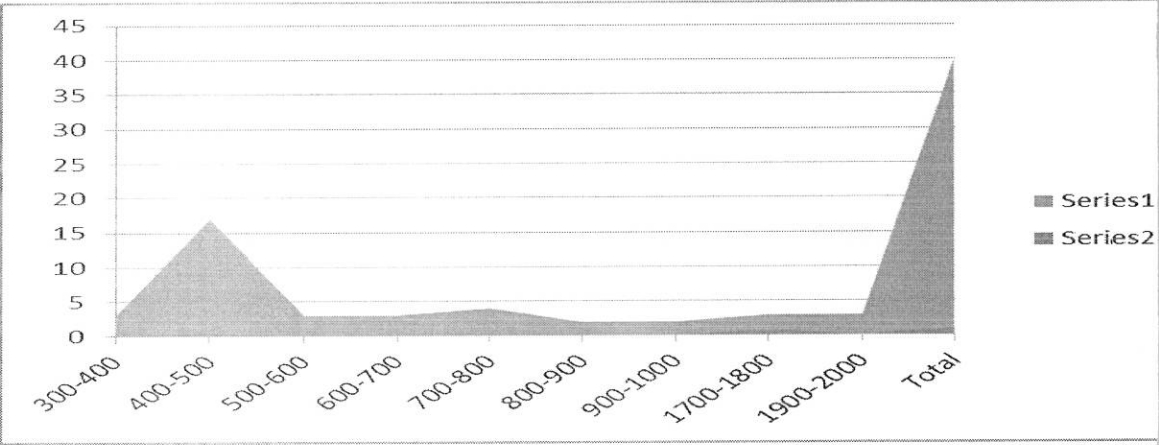
Table 4.4 monthly consumption expenditure of MF respondents before program participation

0	22	27.5%
100-200	17	21.25%
200-300	16	20%
300-400	10	12.5%
400-500	5	6.25%
600-700	6	7.5%
1000-1100	4	5%
Total	80	100%

Source: Author’s own computation based on data collected from MF clients

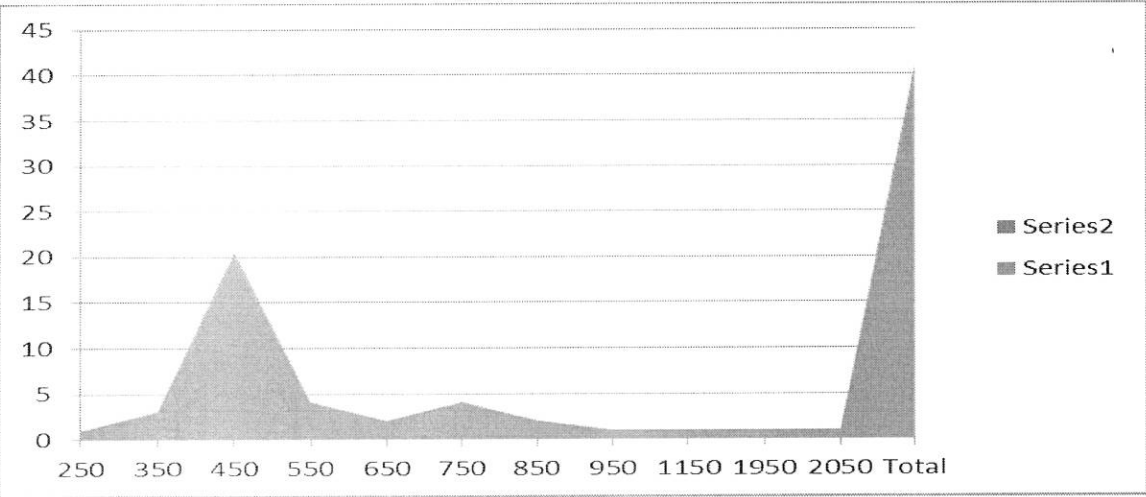
What was the approximate monthly consumption expenditure of your household after program participation?

Figure 4.13 monthly consumption expenditture of vetran respondents after program participation



Source:Author’s own computation based on data collectd from MF clients

Figure 4.14 monthly consumption expenditture of new group respondents after program participation.



Source:Author’s own computation based on data collectd from MF clients

The monthly consumption expenditure of both veteran (old) and new clients before participating in the MF program ranges from zero to 1,100 Birr. Those respondents with zero consumption expenditures were jobless and family dependents. The Above graphs represents that the monthly consumption expenditure of old and new clients of the MFI after joining the MF program. The basic statistical figures of this data are summarized in the following table

Table 4.5 summery of consumption expenditure of respondents

	Minimum	Maximum	Mean	Standard.dev	Sig(2 tailed)
Old clients	400-500	1900-2000	744	298.36	0.004
New clients	200-300	1700-1800	564	320.4	
Difference	200	200	180	22.04	

Source: Author’s own computation based on data collected from sample respondents

The mean consumption expenditure of old group is 744 birr and the new groups average consumption expenditure is 564 Birr. The difference of their average expenditure on consumption is 180 Birr. This result is consistent with the output of asset formation analysis of the two groups, since the old group took credit many times than those of new clients they are more capable of expanding their business and income, in turn this boosts their consumption expenditure than new clients.

However, to ensure whether this difference is a matter of chance element or it is statistically significant, we should conduct an independent samples test and in order to achieve this end an independent sample t-test using SPSS statistical

tool with 95% confidence interval was undertaken and the following null and alternative hypothesis are fixed:

H₀: the consumption expenditure of the two groups is not significantly different.

H₁: the consumption expenditure of the two groups is significantly different.

Decision rule: Reject H₀ if the significance value is less than alpha (null hypothesis) and do not reject it if it is greater than alpha (alternative hypothesis)

As indicated in Table 4.4 the mean difference in consumption expenditure between the two groups is 180 Birr and as per the decision rule, we reject the null hypothesis because 0.004 is less than 0.05 and their difference in consumption expenditure is significant

To support the above change in consumption expenditure the respondents were asked about it after program participation as follows:

Does the number/ type of your meal improved/decreased/remained the same?

Table 4.6 improvement of type of meal of respondents.

	Veteran		New		Sig(2 tailed)
Improved	32	80%	16	40%	0.035
Remains the same	8	20%	24	60%	
Total	40	100%	40	100%	

Source: Author’s own computation based on data collected from sample respondents

The above result of descriptive statistics summery indicates that 80% of the veteran clients’ nutritional intake is improved after joining the MF program, while only 40% of new respondents feel so. On the other hand, 20% of veteran and 60% of new clients disclose, as there is no change in consumption after joining the MF. Significant number of those respondents with no change in consumption admitted in the FGD the fact that even though there is increase in income after participating in the MF program, nowadays food items are very expensive and the incremental income is used just to cover the price increment of foods rather than improving the number and type of their foods.

The above table also shows the existing blatant difference between veteran and new clients of the institution in terms of consumption expenditure and improvement in nutrition after joining the MF program. The number of veteran clients who indicated consumption improvement is twice of new clients. This shows again the positive imp act of the MF program is function of time). This result is consistent with the findings of Robinson (2001) who reported household expenditure increases with participation in MF program.

To test if these differences in nutrition intake are statistically significant, chi-square test was carried out through SPSS and the following null and alternative hypothesis was placed:

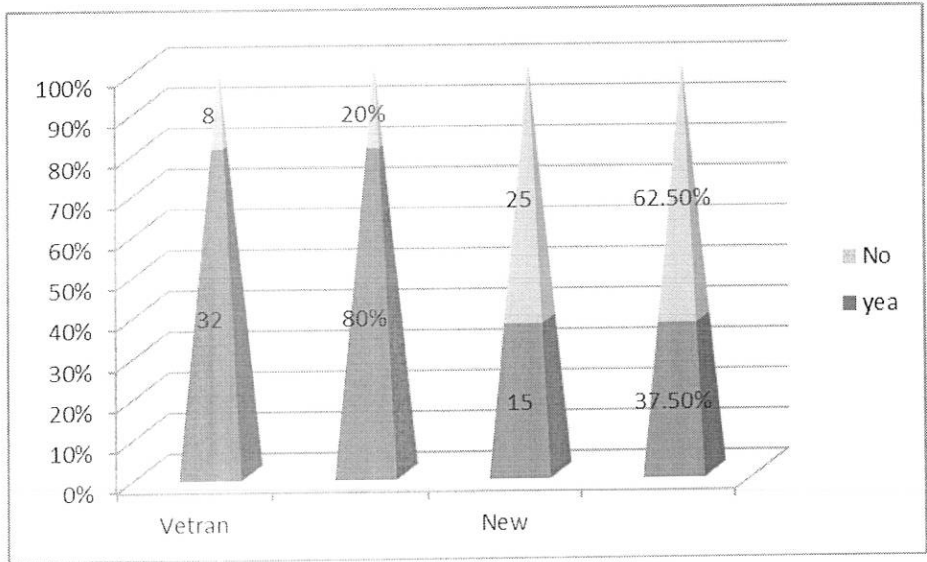
H_0 : There is no significant difference in nutrition intake between the two groups.

H_1 : There is significant difference in nutrition intake between the two groups.

As indicated in Table 4.5 there is difference in nutrition improvement between the two groups. And as per the decision rule, we reject the null hypothesis because 0.035 is less than 0.05 and their difference in consumption expenditure is significant

Do you think that this improvement of consumption expenditure of your household is associated with a rise in income from business financed by the loan?

Fig 4.15 improvement of consumption expenditure of MF clients



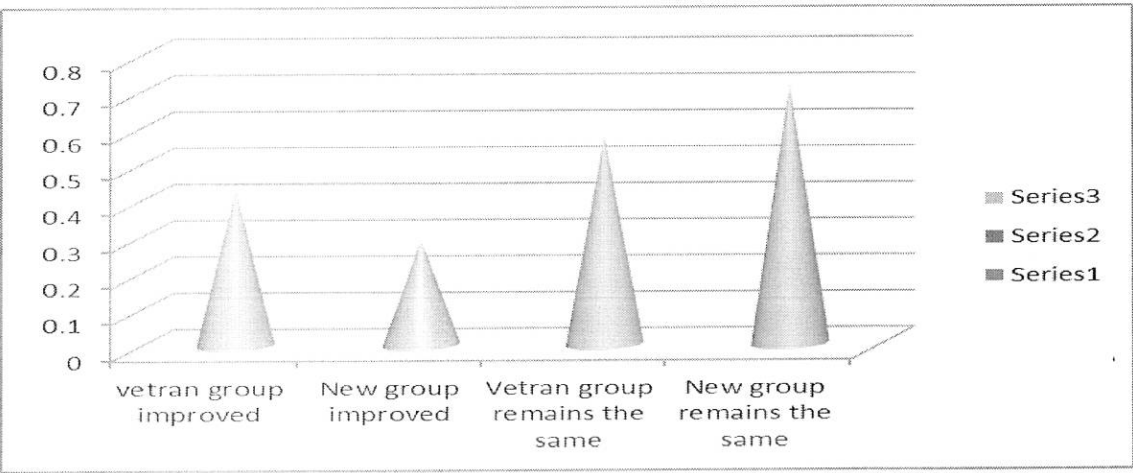
Source: Author’s own computation based on data collected from sample respondents

The above SPSS summery of descriptive statistics shows that those respondents with improvement in nutrition after joining the program attribute the improvement to the program.

One of the positive impacts expected is improvement in education of microfinance program participant’s children or family, therefore in order to make sure whether this objective was met the following question was posed for the sample interviewees:

Did the number of children attending school after program participation /increased, remains the same /decreased?

Fig 4.16 improvement of access to Education by MF clients



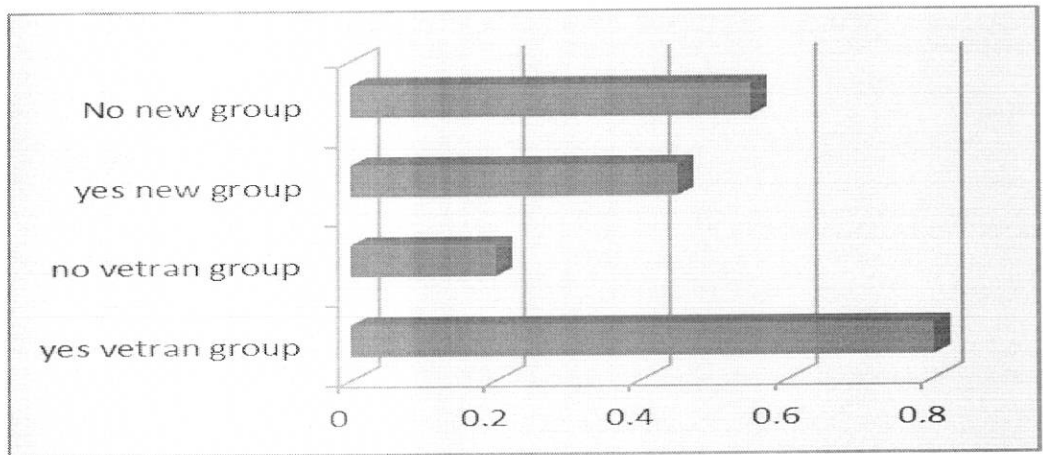
Source: Author’s own computation based on data collected from sample respondents

The above graph shows that 42.5% of veteran respondents and 28.75% of new clients disclosed as their children/family education is improved after joining the MF program. The improvement is in the form enabling their children to join school, having the capacity to pay for a better school fee, affording to buy uniforms and various items needed for schoolchildren. Almost all of those respondents who said no improvement in education their children were already attending school before joining the MF programs. Since the study is conducted here, in Addis Ababa where there are many public schools the respondents' children can join this schools even with difficulties of affording to pay for uniforms and fulfilling various needed items for education. Besides significant number of the respondents disclosed that their children are sponsored by NGO's like UNICEF for their school fee and education materials.

The final question forwarded to the respondents regarding improvement of basic needs was about their medical facilities condition after joining the MF program. In this regard, 80% of the veteran and 45% of new clients indicated that the existence of improvement in medical facilities after joining the program. In the focus group discussion, the respondents disclosed that the improvement is in terms of affording to buy medicines ordered by the physicians otherwise almost all of them are using public medical facilities rather than private ones. Those respondents who said no improvement are still using public health institutions with a difficulty of affording to buy medicines prescribed by the physicians.

Do you think that your access to medical facilities has improved after program participation?

Fig 4.17 respondents' access to medical facilities after program participation



Source: Author's own computation based on data collected from sample respondents

4.1.4 Impact of MF services on alleviating poverty

H-4: participation in the microfinance program reduces the subjective poverty of the participants.

In order to test the above hypothesis the following question was posed to the sample MF Program participants.

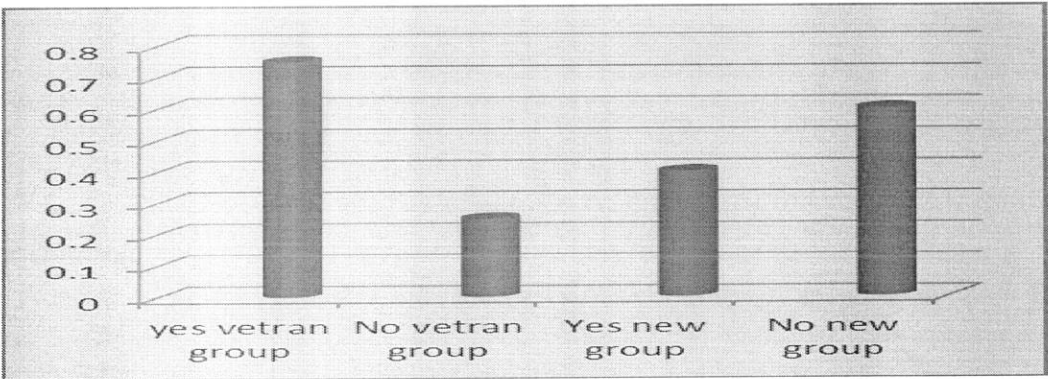
Do you think your poverty level (subjective poverty¹) is improved after participating in MF programs?

¹ Subjective approach to poverty measurement is based on individual self-perception of its own economic welfare. This type of poverty measurement helps to understand people's self-rated level of welfare.

As per the below bar charts 75% of the Veteran clients interviewed disclosed that their poverty level is improved after having the MF services and only 40% of new clients interviewed give an affirmative response for the same question posed. In addition, 25% of the veteran clients and 60% of new clients interviewed revealed that their poverty level is not yet improved even though they are participating in the microfinance program.

Since veteran clients were being served by the MFI for a relatively longer period in comparison to the new clients, it is highly likely for them to improve their poverty level and the output of the SPSS analysis is in line with this argument.

Fig 4.18 improvement in poverty level of respondents



Source: Author’s own computation based on data collected from sample respondents

4.2 Performance analysis of Addis credit and saving institution (ADCSI)

H-5: Institutional financial sustainability is possibly correlated with positive impact on life of MFI clients

In this part, analysis of the performance of ADCSI is conducted and this will indicate whether the institutions impact on clients is positively or negatively related with its performance.

In order to achieve the aforementioned end the performance of the institution is compared with international microfinance performance standards. The standards are based on international best practices, industry benchmarks and ratios that are being used by different players in the microfinance industry.

I-PORTFOLIO QUALITY (40%)

Two indicators below provide specific information on the state of financial health of the microfinance portfolio of the institution. Maintaining good portfolio quality is very important for continued delivery of microfinance services to the MFI's clients. Poor quality of loan portfolio will lead to losses to the institutions, making it difficult to sustain microfinance operations.

- a. Portfolio at Risk (PAR) Ratio** – reflects the proportion of the microfinance loan portfolio with one day missed payment to the total microfinance loans outstanding at a given time, and shows the degree of riskiness of the total microfinance portfolio.

Since microfinance loans are usually small and are payable within a short period of time, the likelihood of default of the entire loan balance is high when one amortization payment is missed. The formula for this indicator is:

$$PAR = \frac{\text{Principal Balance of Loans with At Least One Day Missed Payment}}{\text{Total Principal Loan Balance}}$$

STANDARD: 5%

Table 4.7 Portfolio at Risk (PAR) ratio

	2006	2007	2008	2009	2010
Portfolio at risk	10%	8%	7%	6%	5%
Rating	15	15	15	15	20

Source: author's own Computation based on the financial statement of ADCS

Rating standard	→	5% or less	20
		>5 to 10%	15
		> 10% to 15%	10
		> 15% to 20%	5
		Above 20%	0

As the above rating indicates, the proportion of the company's portfolio at risk is declining from year to year and in the year 2010, its portfolio at risk was just 5% of the whole loan portfolio. So comparing these results in line with the standards the company's portfolio at risk is not as such far away from the international standards.

- b. Loan Loss Reserve Ratio** – indicates the degree of protection of the institution against expected losses due to delinquency.

An allowance should be provided once the microfinance loan is considered at risk, since the likelihood of default increases as amortization payments are missed. Hence, allowance for probable losses is based on PAR. Restructured and refinanced loans are considered as risky and should be provided the appropriate allowance.

$$\text{Loan Loss Reserve Ratio} = \frac{\text{Total Reserves Provided}}{\text{Total Reserves Required}}$$

Total Reserves Required

STANDARD: 100% of the required reserve

Table 4.8 loan reserve ratio of ADCSI

	2006	2007	2008	2009	2010
Loan reserve ratio	83.8%	68.1%	90.6%	95%	95%
Rating	15%	10%	15%	15%	15%

Source: author's own computation based on the financial statement of ADCSI

	Score	Pts.
Rating	100%	20
Standards	70% to <100	15
	50 to <70	10
	30 %to <50	5
	Below 30%	0

As indicated in the above table the company gives 83.8%, 68.1%, 90.6%, 95% and 95% of the loan reserve that should be given for the year 2006 to 2010 respectively. The amount of loan reserve is increasing from year to year though

it is not steadily. In the year 2006, the loan reserve seems a little bit far from the standard and in the year 2009 and 2010 the institution takes in to account almost all delinquent loans.

Since the institution is trying to serve people at grass root level, it seems natural for some of its clients not to fulfill their loan repayment obligations and in general, the allowance given for such loans seems not bad.

II-Efficiency (30%)

The indicators under this category show whether the MFI is able to deliver microfinance services at the least cost to the institution. They also indicate the ability of the institution to generate sufficient income to cover the expenses related to the microfinance operations.

- a. **Administrative Efficiency** – measures the cost of managing the organization’s assets.

$$\text{Administrative efficiency} = \frac{\text{Administrative Costs (direct and indirect costs)}}{\text{Average Gross Loan Portfolio}}$$

Table 4.9 administrative efficiency ratio of ADCSI

	2006	2007	2008	2009	2010
Administrative efficiency	4%	4.6%	4.18%	3.9%	3.7%
Rating	10	10	10	10	10

Source: author’s own computation based on the financial statement of ADCSI

Rating standards

→

Score	Pts.
0 to 10%	10
> 10% to 15%	6
> 15 to 20%	4
Above 20%	0

The administrative efficiency of the institution as manifested in the above table is sound and the ratio is falling as the amount of loan portfolio increases. Both the administrative costs and the magnitude of loan portfolio increase from year to year but the increase is not proportional, so the resultant effect is that the ratio steadily declines. Therefore, the organizations efficiency (ability of managing assets at reasonable cost) is increasing from year to year.

b. Operational Self-Sufficiency – indicates whether enough revenues are earned to fully cover the costs of the microfinance operations.

$$\begin{aligned}
 OSS = & \frac{\text{Interest Income from Loans} + \text{Service Fees} + \text{Filing Fees} + \text{Fines, Penalties,}}{\text{Financing Costs} + \text{Administrative Costs (direct and indirect costs)}}
 \end{aligned}$$

Table 4.10 Operational self-sufficiency ratio of ADCSI

	2006	2007	2008	2009	2010
OSS	168.8%	1153.67%	196.2%	193%	212%
RATING	10	10	10	10	10

Source: author’s own computation based on the financial statement of ADCSI

Rating standards →	Score	Equivalent points
	120% and above	10
	115% to <120%	8
	110% to <115%	6
	105% to <110%	4
	100 to <105%	2
	Below 100%	0

As indicated in the above table, ADCSI is operationally self-sufficient in all periods encompassed in this study. Though 120% is enough to be operationally self-sufficient, the institution surpassed this standard and in 2010, it was almost twice of it. Therefore, the institution was raising adequate revenue not only that covers operational costs but also contributes significant margin for net income.

C. Loan Officer Productivity – measures the ability of loan officers to service microfinance borrowers.

$$\text{Loan Officer Productivity} = \frac{\text{Number of Active Borrowers}}{\text{Number of Account Officers}}$$

Table 4.11 loan officer productivity ratio of ADCS

	2006	2007	2008	2009	2010
Loan officer productivity	196	176.14	178.18	131.31	126.31
Rating	5	5	5	5	5

Source: author's own computation based on the financial statement of ADCSI

Rating standards →	150 and above	5
	100 to 149	3
	50 to 99	1
	Below 50	0

As per the above table, the officers of the institution are serving clients very well. Based on the standard, a loan officer is expected to cater 150 clients, and the ADCSI officers are performing well in this regard.

III. SUSTAINABILITY (15%)

Sustainability – Two indicators below measure the ability of the institution to continuously finance its microfinance operations from internally generated funds in the long run without any subsidy.

- a. **Financial Self-Sufficiency** – indicates whether the organization is earning enough revenue to sufficiently cover in the long-run all operating costs and at the same time maintain the value of its capital and assets, without the need for subsidy

b. $FSS = \frac{\text{Operating Revenue}}{\text{Financial Expense} + \text{Loan Loss Provision Expense} + \text{Adjusted Expenses}}$

STANDARD: greater than 100%

Table 4.12 financial self-sufficiency ratio of ADCSI

	2006	2007	2008	2009	2010
FSS	84%	65.66%	188.6%	153.8%	154.76%
Rating	0	0	10	10	10

Source: author's own computation based on the financial statement of
ADCSI

Rating Standards	→	Scores	Pts.
		100% and above	10
		95% to <100%	8
		90% to <95%	6
		85% to <90%	4
		80%to <85%	2
		Below 80%	0

The FSS of the institution in 2006 and 2007 was below the standard, but starting from 2008 the FSS of the company grows steadily and it comfortably covers all operating costs and maintains the value of its capital and assets without the need for subsidy. Therefore, the institutions performance in its being financially self-sufficient is exemplary for the rest of the countries MFI.

- c. **Loan Portfolio Profitability** – measures the proportion of net revenues generated from the MF lending operations to the MF loan portfolio. This ratio indicates whether earnings can sufficiently cover the annual depreciation of the peso.
- d.

Net Operating Income

$$LPP = \frac{\text{Average Net MF Loan Portfolio}}{\text{Net Operating Income}}$$

STANDARD: greater than the inflation rate during the period

Table 4.13 loan portfolio profitability ratio of ADCSI

	2006	2007	2008	2009	2010
LPP	2.3%	3.97%	5.6%	4.18%	4.78%
Inflation rate	11.6%	13%	17.2%	44%	8.5%
Rating	0	0	0	0	0

Source: author's own computation based on the financial statement of

ADCSI

Rating Standards



Scores	Points
Greater than inflation rate	5
Equal to inflation rate	3
Less than inflation rate	0

The LPP of the institution as indicated in the above table it is far below the standard or the respective period's inflation rate.

RETURN ON ASSET AND EQUITY

In addition to the above financial sustainability, indicators return on asset and return on equity also can tell us the institutions soundness in generating adequate revenue. Return on Assets (also called return on investment) measures the company's profitability per Birr of investment in the total assets and dividing earnings after taxes by total assets. On the other hand, return on

equity measures the company's profitability per Birr of the company's capital or it shows the amount of profit generated per Birr of shareholders capital.

Table 4.14 selected components of financial statements of ADCSI

	2006	2007	2008	2009	2010
Net Income	2,711,893	5,761,964	11,532,653	11,755,322.50	17,390,316.22
Total assets	172,012,262	232,085,765	287,127,356	379,345,178.73	504,196,809.65
Shareholders' equity	124,437,714	158,217,359	205,026,599	275,781,921.50	343,151,238.80
ROA(NI/Total asset)	1.57%	2.48%	4.016%	3.1%	3.45%
ROE(NI/shareholders equity)	2.18%	3.64%	5.62%	4.26%	5.06%

Source: financial statements of ADCSI

The above table shows that both ROA and ROE of the institution are increasing from year to year. The institution generates 0.0157, 0.0248, 0.0406, 0.031 and 0.0345 cents per Birr of the company's assets from year 2006 to year 2010 respectively. Since there is, no any benchmark to compare with it is difficult to judge the company's performance.

The company was also able to generate 0.0218, 0.0364, 0.0562, 0.0426 and 0.0506 cents Per Birr of the shareholders equity for the years 2006 -2010 respectively. Again, due to lack of industry standard it is a little bit difficult to judge the company's performance.

IV- OUTREACH (15%)

Outreach - These indicators show the extent of reach of the MFI. They take into account the growth in the number of the active clients, the expansion of the microfinance portfolio, and the depth of outreach

- a. **Growth in Number of Active MF Clients** - measures the ability of the MFI to expand its operations through increases in its active clients (referring to those with outstanding MF loans with the institution).

$$\frac{\text{Ending No. of Active MF Clients} - \text{Beginning No. of Active MF Clients}}{\text{Beginning No. of Active MF Clients}} = \text{GINNAMFC}$$

STANDARD: $\geq 5\%$

Table 4.15 growth in number ratio of ADCSI clients

	2006	2007	2008	2009	2010
Growth in Number of Active MF Clients	7.2%	7.9%	16.9%	-3.83%	14.6%
Rating	5	5	5	0	5

Source: author’s own computation based on the financial statement of

ADCSI

Rating standards →

Scores	Points
5% or higher	5
0 to 5%	3
Below 0	0

The above table indicates that the number of clients is growing steadily in each period except in 2009, which shows decline by 3.83% relatively in comparison to 2008 and in 2010, the number of active client’s increases by 14.6%. This result is consistent with the increase in the magnitude of loan portfolio as indicated in growth in microfinance loan portfolio ratio.

b. Growth in Microfinance Loan Portfolio – determines the rate of expansion of the MF loan portfolio, which may be a result of an increase in the number of active clients or in the loan amounts, or a combination of both.

$$\begin{aligned}
 \text{GILP} &= \frac{\text{Ending MF Loans Outstanding} - \text{Beginning MF Loans Outstanding}}{\text{Beginning MF Loans Outstanding}} \\
 \text{STANDARD: } &\geq 5\%
 \end{aligned}$$

Table 4.16 Growth in ADCSI Loan Portfolio ratio

	2006	2007	2008	2009	2010
GILP	76%	43.345	41.4%	3.12%	29%
Rating	5	5	5	5	5

Source: author’s own computation based on the financial statement of

ADCSI

Ratingstandards

→

Scores	Points
5% or higher	5
0 to 5%	3
Below 0	0

The company’s loan portfolio is increasing from year to year as the above table indicates though the increase is not in the same rate each year. In comparison to the rating standard the company’s loan, portfolio increase is more than significant. This increase in loan portfolio is consistent with the increase in the number of active clients as indicated in Growth in Number of Active MF Clients ratio.

c. Depth of Outreach – indicates whether the MFI provides micro-financial services to clients belonging to the lower income segment of the economy.

$$DOO = \frac{\text{Total Loans Outstanding} \div \text{Total Number of Active Borrowers}}{\text{GNP per Capital}}$$

Standard do not exceed 20%

Table 4.17 depth of outreach of ADCSI

	2006	2007	2008	2009	2010
DOO	104.56%	95.6%	91.6%	56.57%	46.3%
Rating	3	4	4	4	4

Source: author’s own computation based on the financial statement of ADCSI

standards

Rating

Scores	Points
≤ 20	5
> 20 - 100	4
>100-150	3
>150-200	2
>200-300	1
>300	0

The result of the above table shows that the depth of outreach of ADCSI is a little bit below the standard. The implication of the above figures is that the institution under study is not in a very good position of serving the poorest of the poor.

VII. Overall Adjectival Rating

- **Rating 1 (90 to 100) – Excellent.** The MFI has strong performance that provides safe and sound operation. The microfinance operations of institutions in this category are resistant to external shocks and financial disturbances and are able to withstand adverse changes in the business environment.
- **Rating 2 (80 to 89) – Very Satisfactory.** The MFI has satisfactory performance. They have safe operations and are able to withstand business fluctuations. However, there are some areas in its operations that need special attention which, if left unchecked may negatively affect its microfinance operations.
- **Rating 3 (70 to 79) - Satisfactory.** There are areas in the microfinance operations that need special attention. Key performance measures indicate that the operations may be adversely affected and may deteriorate further when left unchecked.
- **Rating 4 (Below 70) – Needs Improvement.** The microfinance operation has serious problems and needs close supervision.



Table 4.18 summary of performance analysis ratio of ADCSI

Indicators	2006	2007	2008	2009	2010
PORTFOLIO QUALITY					
Portfolio at Risk (PAR)	10%	8%	7%	6%	5%
Loan Loss Reserve Ratio(LRR)	83.8%	68.1%	90.6%	95%	95%
II. EFFICIENCY					
Administrative Efficiency	4%	4.6%	4.1 8%	3.9%	3.7%
Operational Self-Sufficiency	168.8%	153.67	196 .2%	193%	212%
Loan Officer Productivity	196	176.14	178 .18	131.31	126.31
III. SUSTAINABILITY					
Financial Self-Sufficiency	84%	65.66%	188 .6%	153.8%	154.76%
Loan Portfolio Profitability	2.3%	3.97%	5.6 %	4.18%	4.78%
IV. OUTREACH					
Growth in Number of Active MF clients	7.2%	7.9%	16. 9%	-3.83%	14.6%
Growth in Microfinance Loan Portfolio	76%	43.34%	41. 4%	3.12%	29%

Depth of Outreach	104.56%	95.6%	91.6%	56.57%	46.3%
Total	68%	64%	79%	73%	84%
Rating	Needs improve ment	Needs improve ment	sati sfac tory	Satisfactory	Very satisfactory

Source: author's own computation based on the financial statement of ADCSI

4.2.1 summery of ADCSI performance ratios

- The rating out of 100 was 68% and 64% respectively for 2006 and 2007 and this indicates as the ADCSI operation have had serious problems and needs close supervision.
- In 2008 and 2009 the institution shows improvement and its overall rating was “satisfactory”. In these two years, the institution registered in almost all benchmarks of MF performance assessment good scores.
- In 2010 the institutions performance reaches its peak relative to the first four years under study and total assets, shareholders equity and net income respectively increased by 5634994,124851631, and 67369317 in comparison to the year 2009.

In order to augment the analysis of quantitative data obtained from the financial statement of the company under study, data that have a qualitative feature was collected by interviewing four branch managers and one head office senior official. The officials were asked about how the company manages its financial sustainability while serving the poor, the sufficiency or adequacy of loan forwarded to clients, and the impact of their company's services on clients life.

The respondents (officials) of the ADCSI disclosed that in order to maintain their financial sustainability a very tight screening carried out regarding the behavior of credit applicants, and the feasibility of the business in which the credit is requested for before forwarding the loan. More over after granting the credit to the clients, the company conducts continuous supervision through visiting the business premises of the clients and giving advices. Similarly, it is well articulated in literatures that less default rate is critical for financial sustainability to achieve this end strong supervision and screening is necessary.

The respondents are also adamant about the fact that the magnitude of loan forwarded to their clients is adequate. They also disclose their commitment to avoid the negative consequences of under/over financing their clients. In contrast to this opinion of the company's officials, some of the clients interviewed disclosed their discontentment about the amount of credit they are allowed.

All the five officials interviewed revealed confidently the fact that their institution has positive impact on the life of their clients through creation of job opportunities and increasing their income. The analysis of data gathered from the clients also revealed this fact and there seems to be consistency of findings.

CHAPTER FIVE CONCLUSION AND RECOMMENDATIONS

The paper examines the impact of microfinance services on clients in the case of Addis credit and saving institution. The performance of ADCSI in relation to its impact on clients and financial sustainability is also given due consideration in the paper. It reviews literatures on core performance indicators of MFIs. The literatures noted that MFIs could be examined through two main polar: impact on clients and financial sustainability. In order to achieve this end data both qualitative and quantitative gathered from clients to study the institutions' impact on its clients. More over the financial statements of the company and data from the officials of the company is gathered to evaluate the performances and financial sustainability of the institution under study. In the analysis process, the study has adopted simple descriptive analysis techniques

5.1. Conclusion

Based on the analysis made in Chapter four the following conclusions are made on the impact of ADCSI services on its clients:

5.1.1 Impact on employment and income generation(Objective 1)

The analysis of data collected through MF client interview and focus group discussion revealed the fact that microfinance

intervention has positive impact on employment opportunity creation and increasing the income of the program participants.

5.1.2 Impact on asset formation (objective 2)

The study also shows the existence of direct relationship between MF program participation and Asset formation capacity. Moreover, the study indicated that there is a significant difference between new and veteran members of the program in terms of asset formation capacity. The mean assets bought by veteran and new clients were 3102 Birr and 790 Birr respectively. In order to check the statistical significance of their difference in asset formation independent sample t test was conducted and reveals as their difference is statistically significant.

5.1.3 Fulfillment of basic needs (objective 3)

The intervention also shows positive impact on fulfillment of basic needs, but the extent of this positive impact on new and veteran clients is not the same. Independent sample t -test and Chi-Square Test analysis was made on consumption expenditure and nutritional intake of the two groups and the result revealed statistically significant difference between them.. Veteran clients registered more consumption expenditure and nutritional improvement than new clients did.

5.1.4 Improvement in subjective poverty level (objective 4)

The last variable of the study related with clients' welfare impact was improvement in subjective poverty level (self-rated poverty

level). In this regard, 75% of veteran clients feel improvement in their poverty level (became less poor) and 40% of new clients feel so

5.1.5 Financial sustainability of the MFI while serving the poor (objective 5)

From profitability and sustainability point of view, ADCSI is doing well in terms of Operational self-sufficiency and financial self-sufficiency.

ADCSI is performing well the manifestation of this good performance is that it fulfills in almost all dimensions the international microfinance industry performance standards. The company's operational and financial self-sufficiency ratios and profitability ratios as well are showing continuous improvement over time. From the outreach angle, it is found that ADCSI operation is expanding through increases in its active clients.

5.1.6 Correlation between client welfare impact and MFI financial sustainability

The study reveals the fact that the performance of MFI is positively related with its impact on clients. Because as the data analysis shows the participants of the program are positively affected by the services of the MFI. Indicators of positive impact on clients welfare are change in employment status (new job creation and business expansion), improvement in income, asset formation, fulfillment of basic needs (food, education and medical services) and subjective poverty improvement. Moreover, the financial and operational

performance of the institution is sound comparing its performance with international MF industry standard.

5.2 Recommendations

Based on the findings of the study the following recommendations are made by the researcher:

Even though ADCSI was doing well in terms of profitability and sustainability, Depth of outreach ratio of the institution indicates that the company is not providing micro-financial services to clients belonging to the lower income segment of the economy. Therefore, it is better for the institution to exert maximum effort to serve the poorest of the poor.

The Loan portfolio profitability ratio of the institution as indicated in the analysis part of the study is far below the standard or the respective period's inflation rate. To meet the standard it is better to match profitability with the respective period's inflation rate.

Some clients of the institution encompassed in the study disclosed that the amount of credit forwarded to them is not adequate and due to this no significant change in their life, therefore the institution may consider its credit size policy.

ADCSI provide/offer small business training to the clients. However, the training is confined to only business training. Thus, it is better for ADCSI to expand its scope of training to include accounting, bookkeeping and cost calculation, budgeting, and leadership/decision-making, etc.

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Appendixes

Appendix-1: Questionnaire for the research

ADDIS ABABA UNIVERSITY

School of Business & Public Administration

Department of Accounting and finance

Questionnaire for survey on "Impact of Microfinance services on clients in Addis Ababa: The Case of Addis saving and credit institution.

Branch: _____ Enumerator: _____ Date: _____

Dear Respondent,

The purpose of this questionnaire is to gather information to write a research paper on the impact of microfinance. Personal responses of interviewees would be kept confidential, and there would not be any link between status in the programme and responses. Therefore, you are kindly requested to give accurate information as much as possible.

Thank you in advance

1. Personal information of the Respondent

(Please make a ' ☐ ' mark in the Dash provided in front of the Question

1.1 Sex: 1. Male _____ 2. Female _____

1.2 Age 18-25 _____ 26-35 _____ 36-50 _____ above 50 _____

1.3 Marital Status:

1. Single _____ 3. Divorced _____

2. Married _____ 4. Widowed _____

5. Other if any _____

1.4 Educational level

1. Illiterate _____ 2. Grade -1-4 _____

3. Grade 5-8 complete _____ 4. Grade 9-12 _____

5. above grade 12 _____

6. If it is above grade 12, specify the qualification: _____

2. Information about employment and income (Objective 1)

2.1 Information on Employment and Business

2.1.1 what were you doing before you join microfinance borrowing?

2.1.2 What is your current engagement?

- A) Local drink preparation B) selling "injera"
C) Wood or metal work D) Textiles
E) Shoe polish or repair F) Beauty salon
G) Retail trade
F) Others(specify) _____

2.1.3 Did you start any of the activities after the program participation?

- A) Yes _____ B) No _____

2.1.4 If your answer to Q. 2.1.3 is yes, how?

- A) _____
B) _____

2.1.5. If your answer to Q .2.1.3 is No, why?

2.1.6 Do you think that your income and job Opportunities have improved due to the microfinance services (intervention)?

- A) Yes _____ B) No _____

2.1.7 if your answer is yes for the above question, how far MF membership helps you in starting the job.

- A. provided me with the with business idea due to training and consultation
B. It helped me with the provision of start-up capital.
C .It provided me with working place (space, house rent, etc)
D.otherspecify _____

2.1.8 If you have continued your previous job what, do you think the MF services contributed to your business?

- A. helped me to sustain it. otherwise, which could have closed due to shortage of capital.
B. helped me to expand and operate at larger scale, and improve profitability.
C. helped me to diversify my business (start another activity, to support the existing one)
D. No change

2.1.9 Have you used hired labour in your business activities?

A) Yes _____ B) No _____

2.1.10 If your answer to Q 2.1.6 is yes, how many? _____

Is it for temporary or permanent? _____ and for which activities?

2.2 Information about source of income

2.2.1 Do you have a source of income for your household before the loan?

A) Yes _____ B) No _____

2.2.2 If your answer to Q.2.2.1 is yes, explain the source and the amount of your income

Source of income _____

Amount of monthly income _____ Birr

2.2.3 Did your overall household income

A) Increase _____ B) Remains the same _____ C). Decrease _____

2.2.4 How did your income increase? (If increased)

A). Expand existing business due to accessibility of credit

B) Able to purchase input due to accessibility of credit

C) Got jobs due to accessibility of credit

D) If any others (specify) _____

2.2.5 Why do you think your income remain constant or decrease? (If remain constant and decrease)

A) Illness or death of one or more of your family member

B) Unable to get inputs due to lack of credit

C) Family member lost jobs

D). others (specify) _____

3. Information about Asset formation (objective 2)

3.1 What type of house did you have before program participation?

3.2 Did you improve your house after program participation?

A) Yes _____ B) No _____

3.3 If your answer is yes, due to:

A) Access to credit _____ B) Improved income _____

C) Gifts or Aids _____ D) others (specify) _____

3.4 If your answer for Q 3.2 is No, what are the reasons?

A) _____

B) _____

3.5. What are the types, numbers and estimated value of the assets you purchased? After program participation?

Type	No.	Total value in birr
1. Chairs	_____	_____
2. Tables	_____	_____
3. Beds	_____	_____
4. Radio / Tape Recorder	_____	_____
5. Stove	_____	_____
6. TV	_____	_____
7. Refrigerator	_____	_____
8. Others (specify)	_____	_____

3.6 Did your purchasing power to buy assets was improved after program participation? if your answer is 'Yes', how?

A) Due to increase in income from microfinance activities

B) Due to increase in income from non-microfinance activities

C) Gifts or aids

D) Others (specify) _____

3.7 If your answer to Q. 3.6 is No, Why?

A) Lack of credit

B) Market problems

C) Lack of working capital

D) Other specify _____

3.8 Did you have a personal saving account before program participation?

A) Yes _____ B) No _____

3.9. If your answer for Q. 3.8 is yes, specify the monthly saving amount in Birr _____

3.10 Do you have a personal saving account after program participation?

A) Yes _____ B) No _____

3.11 If your answer for Q. 3.10 is yes, in what form do you save and why?

- A) Compulsory savings in MFI
- B) Voluntary savings in MFI
- C) Saving and credit association
- D) Bank account
- E) Iqqub
- F) Iddir

3.12. How often do you save? Weekly, monthly, yearly _____

3.13 What is your source of money for saving?

- A) Business / profit financed by the loan
- B) Others (specify) _____

3.14 To what purpose did you save?

- A) To earn interest income
- B) Loan repayment
- C) To expand your business
- D) For safety purpose and meet contingencies (risks).
- E) Others (specify) _____

4. Fulfillment of basic needs (objective 3)

4.1 Consumption and Nutritional Status

4.1.1 What was the approximate monthly consumption expenditure of your Household before program participation? Birr _____

4.1.2 What is the approximate monthly consumption expenditure of your household? After program participation? Birr _____

4.1.3 Does the number or types of your meals for the last two/one years have?

- A) Improved _____ B) remained the same _____ C) Decreased _____

4.1.4 If your answer to Q. 4.1.3 is improved, how has it improved?

- A) Able to buy more cereals such as teff, maize, etc
- B) Able to buy vegetables and fruits
- C) Able to buy dairy products milk, meat, cheese, egg, etc.
- D) Able to eat suitable foods like pasta macaroni etc.
- E) Able to eat three times (meal) a day
- F) Others specify _____

4. 1.5 Do you think that this improvement of consumption expenditure of your household is associated (related) with a rise in income from business financed by the loan?

A) Yes _____ B) No _____

4.1.6 If your household diet has not been improved after program participation? What are your major reasons?

A) _____

B) _____

C) _____

4.2 Information about Access to Education

4.2.1 If you have children of school-going age, how many of them have been attending school before program participation? _____

4.2.2 Did the number of your children attending school after program participation

A) Increased B) remained constant C) Decreased

4.2.3 If increased, how?

A) due to Income improvement

B) Access to new school building

C) Increase in the awareness of household towards education

D) Others (specify) _____

4.2.4 If decreased or remained constant, why?

A) Lack of income for payment of school tuition fee

B). Lack of access to education in area

C) Lack of interest to attend school

D). others (specify) _____

4.2.5 If there are school age children, and currently don't attend school, what is the reason?

A) They are required to assist in the business activities

B) They are required to assist in non – business activities

C) Disabled

D) Don't want to learn

E) Others (specify) _____

4.3 Access to Medical Facilities and Expenditure

4.3.1 Did your family and you have access to medical facilities before program Participation?

A) Yes _____ B) No _____

4.3.2 If your answer to Q. 4.3.1 is yes, who was the bearer of medical expenditure?

A) Yourself B) Other family members
C) Relatives D) Free medical service user

4.3.3. What is the average annual household medical expenditure after program participation? _____ Birr

4.3.4 Do you think that your access to medical facilities has improved after program participation?

A) Yes _____ B) No _____

4.3.5 If your answer to Q. 4.3.4 is 'yes', what is the main reason?

A) Access to money from the microfinance activities
B) Better local treatment _____
C) Sold household assets _____
D) Borrowed from other sources _____
E) Others (specify) _____

4. Impact on poverty alleviation (subjective poverty)

4.1 Do you think your poverty level is improved after the program participation?

A) yes _____ B) No _____

Questions for the focus group discussion

This study attempts to answer the following key research questions:

1. What is impact of the intervention on your employment and income?
2. Is the participation in the microfinance program increases yours' entitlement to assets, tangible as well as intangible, through income increase?
3. Is your poverty level improved because of getting microfinance services?
Is the membership in MF builds your social capital?
(Membership to community organizations, election to office, participation

Interview Questions for the officials of ADCSI

Position of the respondent in the MFI _____

1. How do you manage your sustainability while serving the poorest?
2. Do you think that the loan is sufficient for your client to run their projects?
3. Do you think your institution have positive contribution for MF program clients? If yes

Appendix-ADCSI Performance indicator ratio calculation

		2006	2007	2008	2009	2010
PORTFOLIO QUALITY						
Portfolio at risk	Balance of loans missed at least once	11,943,418.4	13,696,512	16,946,728	19,059,263	20,493,351
	Loans outstanding	119,434,184	171,206,398	242,096,121	317,654,387.29	409,867,028.91
Loan Loss Reserve Ratio	<u>Total Allowance Provided</u>	1,152,289	188,212	284,584	2,640,061.00	4,675,077.03
II-EFFICIENCY						
Administrative Efficiency	Total Required Allowance	1,375,000	276,375	314,000	2,781,000	4,916,000
	Administrative Costs (Direct & Indirect Costs2/)	4,784,893	6,810,865	-8,654,334	-10,937,296.50	-13,408,951.30
Operational Self-sufficiency	Average Gross Loan Portfolio	117094657	145320291	206651259.5	279875259.145	363760713.1

	Interest Income from Loans + Service Fees + Filing Fees + Fines.	10,408,924	16,043,562	24,100,522	29,730,283.2	41,651,828.8
Loan Officer Productivity	<i>Number of Active Borrowers</i>	89,000	96,000	112,259	107,954	-128,711
	<i>Number of Account Officers</i>	454	545	630	822	1019

III. SUSTAINABILITY

Financial Self-sufficiency	<u>Operating Revenue</u>	8,722,039	13,921,032	20,978,446	24,100,808	36,011,022.03
	Financial Expense + Loan Loss Provision + Expense Adjusted Expenses	10,377,758	21,199,861	11,123,249	15,671,606	23,267,775.35
Loan Portfolio Profitability	<u>Net Operating Income</u>	2,711,893	5,761,964	11,532,653	11,694,596.75	17,390,316.22
	Average Net MF Loan Portfolio	117,094,657	145,320,291	206,651,260	279,875,254	363,760,708

IV. OUTREACH

Growth in Number of Active MF clients	Ending No. of Active MF Clients	89,000	96,000	112,259	107,954	128,711
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	<u>Beginning No. of Active MF Clients</u>	83,000	89,000	96,000	112,259	107,954
Growth in Microfinance Loan Portfolio	<u>Ending MF Loans Outstanding – Beginning MF Loans Outstanding</u>	87,220, 039	51,772, 214	70,889,723	75,558,26 6	92,212,642
	<u>Beginning MF Loans Outstanding</u>	114,75 5,130	119,43 4,184	171,206,39 8	242,096,1 21	317,654,387 .29
Depth of Outreach	<u>Total Loans Outstanding ÷ Total Number of Active Borrowers</u>	119,43 4,184/8 9,000	171,20 6,398/9 6,000	242,096,12 1/ 112,259	317,654,3 87/107,95 4	409,867,029 /128,711
	GNP per capital	104.66 %	95.6%	91.61%	56.57%	43.6%

Appendix-3 Personal information of the respondents

Sex of the respondents

	Frequency	Percent	Cumulative
female	48	60.0	60.0
male	32	40.0	100.0
Total	80	100.0	

Age of the respondents

	Frequency	Percent	Cumulative
18-25	15	18.8	18.8
26-35	29	36.3	55.0
36-50	27	33.8	88.8
above 50	9	11.3	100.0
Total	80	100.0	

Marital status of the respondents

	Frequency	Percent	Cumulative
single	27	33.8	33.8
married	37	46.3	80.0
divorced	12	15.0	95.0
widowed	4	5.0	100.0
Total	80	100.0	

Educational status of the respondents

	Frequency	Percent	Cumulative
illiterate	28	35.0	35.0
grade 1-4	11	13.8	48.8
grade 5-8	15	18.8	67.5
grade 9-12	11	13.8	81.3
above grade 12	15	18.8	100.0
Total	80	100.0	