

**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**THE IMPACT OF MICROFINANCING ON POVERTY
REDUCTION:**

***A CASE STUDY OF OROMIYA CREDIT & SAVING SHARE
COMPANY (OCSSCO) IN EASTERN WOLLEGA ZONE OF
OROMIYA NATIONAL REGIONAL STATE, ETHIOPIA***

BY

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A thesis submitted to the School of Graduate Studies, Addis Ababa University, Department of Economics, in Partial fulfillment of the Requirement for the Degree of Master of Science in Economic Policy Analysis

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DECLARATION

I, the underlined, declare that this thesis is my own original work. It has not been presented in any other university. All sources of materials used for the thesis have been dully acknowledged.

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ACRONYMS

ACSI	Amhara Credit and Saving Institution
AEMFI	Association of Ethiopian Microfinance Institution
AIDB	Agricultural and Industrial Development Bank
AIMS	Assessment Impact of Microfinance Services
AZEW	Administrative Zone of Eastern Wollega
CBE	Commercial Bank of Ethiopia
CSA	Central Statistics Authority
DBE	Development Bank of Ethiopia
DECSI	Dedebit Credit and Saving Institution
ECSC	Ethiopian Civil Service College
HSB	Housing and Saving Bank
JLLIs	Joint Liability Lending Institutions
MFIs	Microfinance Institutions
MIE	Maximum Likelihood Estimates
MIM	Maximum Likelihood Methods
MSc	Master of Science
NBE	National Bank of Ethiopia
NGOs	Non-Government Organizations
OCSSCO	Oromiya Credit and Savings Share Company
OLS	Ordinary Least Squares
ORNS	Oromiya Regional National State
OSHO	Oromo Self Help Organization
RUFIP	Rural Financial Report Paper
SAP	Structural Adjustment Program
SPSS	Statistical Program for Social Science
TGE	Transitional Government of Ethiopia
USAID	United States Agency for International Development

Abstract

The prevalence of poverty has been a common phenomenon in Ethiopia. The prevailing operation of the conventional financial institutions in Ethiopia is inefficient in providing financial services to the poor. The challenge Ethiopia is facing today is to reduce poverty and achieve sustained economic growth for healthy national development. One of the economic policies of the country is introduction of MFIs in the country. Currently, microfinancing is being practiced in the country as a tool to deliver financial services to the poor with the objective of attacking poverty.

OCSSCO, one of the 22 licensed microfinance institutions in Ethiopia, was established in August 1997 in ORNS for this purpose. The objective of this study, therefore, is to find out whether the delivery of financial services of the MFI has made changes on living standard of the clients. Primary data were collected through structured questionnaire from clients and non-clients using simple random sampling method. Secondary data were gathered from different MFIs' reports and literatures. Both are quantitative and qualitative in nature. Descriptive analysis, dichotomous binary model and sensitivity analysis were applied in the study.

The impacts are analyzed based on two approaches. First, the impacts are observed in association mainly with income, which in turn have effects on nutritional status, access to education and medical facilities, employment generation, savings and empowerment, among others. The finding indicates that the OCSSCO's microfinancing scheme has made positive contribution to the clients in relation with observed variables. The impacts are also evaluated based on MFI's outreach and sustainability having the conceptual framework that if both outreach and sustainability have been enhanced then the program intervention is judged to have a positive impact as it has created the financial market to the poor. The finding also indicates that in spite of improvement in outreach and sustainability, a number of respondents are looking for the services. However, considering the sustainability of the MFI, the result shows 100% loan repayment performance except the first year of establishment in the study area. Adequate advising, supervision and giving services on time are some of the factors that help in loan repayment performance.

The overall objective of MFIs in Ethiopia is to increase the productive potential of the poor and poverty reduction. The study found out the importance of the program. The intervention has enabled the clients to generate income that could be spent on better facilities, which could improve the living standard of clients. Therefore, strengthening the existing operation would be appropriate socio-economic policy.

KEY WORDS: Microfinance, Loan products, saving products, Impact assesement, Outreach, Sustainability, Poverty.

CHAPTER I: INTRODUCTION

1. Background

1.1.1 Overview of Microfinancing and Poverty

It is first necessary to make explicit definitions of microfinance and poverty on which this paper attempts to investigate the relationship. Microfinance refers to the delivery of financial services such as credit, savings, insurance, etc. to clients who are without access to the services of formal sector financial institutions on sustainable basis (Joan Parker, 2000). According to Dejene Aredo (1998) MFIs are often defined in terms of the following characteristics: (i) targeting the poor (especially women); (ii) promoting small business; (iii) building capacity of the poor; (iv) extending small loans without collaterals; (v) combining credit with saving; and (vi) charging market rate of interest.

Poverty could be conceived as a situational syndrome consisting of deficiency in food consumption, high mortality and morbidity levels, poor sanitary and housing conditions, low educational levels and the existence of widespread marginal population in all aspects of life (Hadgue Bariagaber, 1995). Webster's University Dictionary defines poverty as "lack of means of providing material needs or comforts". Poverty is multidimensional concept. It includes inadequacy of income, deprivation of basic needs and rights and lack of access to production assets as well as to social infrastructure and markets.

According to Joan Parker (2000), poverty has always been a concern of microfinance; and some microfinance institutions use methodologies that target the very poor as a separate client groups, while others are based on non-targeted financial services for all those who lack access to formal credit institutions.

Sound practice in microfinance institutions is based on the ability to provide appropriate financial services to individuals and households that are otherwise excluded from the financial system (Joan P., 2000). According to his report, most microfinance clients are poor

and many are extremely poor. Poverty remains a pervasive national problem that calls for urgent action.

According to Wolday Amha (2000), poverty in Ethiopia is a multidimensional problem with large scope; there is no single actor and approach to its reduction. He argued that the solution to the problem should also be multidimensional. It may be necessary to introduce instruments that provide data on poverty level that help to search or target poor people. Recognizing this fact, the need to address poverty has been the focus of many development programs implemented by governments, non-government organizations (NGOs), and private investors. Thus, most development programs were focused in improving agricultural productivity, infrastructure, health, education, communication and other services such as banks (Messele, 2002).

Messele also found that in countries such as Indonesia, Bangladesh and India, it was proved that credit and saving services can be provided to economically active poor profitably and sustainability. This encouraging result becomes the corner stone for microfinancing revolution throughout the world.

Marguerite Robinson (2000) and Monque Cohen (2000) concluded that access to microfinance is a key risk management strategy for clients, and microfinance services reduce vulnerability and contribute to poverty alleviation. Wolday (2000) also argued that the delivery of financial services has been viewed as an anti-poverty tool of development programs in Ethiopia. Farm credit is usually considered as an essential input to increase agricultural productivity, mainly of land and labor, to boost food and income levels, to encourage employment and thereby to alleviate poverty.

Ethiopian government undertakes major policy changes to support microfinance in rural and urban areas. Microfinancing lending approach focuses on reducing poverty through credit and saving services, often provided together with complementary services such as skills training and teaching on literacy, health, nutrition, family planning and the like (Messele, 2002).

Gertrude Schrieder (1996) found that financial services accessible to the rural poor might have the potential to efficiently contribute to income generation, food security and poverty alleviation. The goal of microfinancing institutions as development organizations is not only to serve as financial services, as other financial intermediation, but also serve as social intermediation. These development objectives include poverty reduction through employment creation, encourage the development of new business and diversification of income generating activities. Since the objective of many microfinancing institutions is poverty reduction, they often wish to focus on the poorest segments of the population (Ledgerwood, 1999).

1.1.2 Poverty in Ethiopia

The prevalence of poverty has been a common phenomenon in the Ethiopian society. Although the agricultural sector, which is the mainstay of Ethiopian economy, is inadequate to feed the growing population, currently, about fourteen million of people need emergency food aid. Half of the country's population lives in abject poverty. Poor economic performance, rapid rate of population growth, low technological base, periodic drought, and internal displacement have continued to exacerbate poverty in the country. The 1997 World Development report of the World Bank put Ethiopia (at \$100 per capita) second from the last comparing it with 133 countries of the world. Based on the nutritionally determined national poverty line of 2,200 calories per adult per day, nearly 47% of the rural population live below the poverty line compared to 33% in the urban areas (RUFIP, 2001). This fact could indicate a lot of things regarding the quality of life of the Ethiopian people.

Johanson and Rogaly (1997) provided a useful indication of poverty. They identified three sources of poverty: lack of income, vulnerability to income fluctuations and powerlessness (few choices and little control). These and multitude of other factors have resulted in slowdown in the economic growth of the country.

The consequence of such economic slowdown is deterioration of the living conditions of its people. Many people consider short falls in the reasonable minimum level of economic welfare as poverty. However, complete definition of poverty should consider basic social conditions such as health, education, and social security in addition to economic welfare (Berhanu, 1999).

I put people's perception of poverty as follows. The youth described poverty as "lack of income, unemployment and lack of vision". Women described poverty as "inability to get basic needs, lack of livestock, lack of land, having no source of income and being childless". The men described poverty as "having no unemployment, lack of livestock, inability to get basic needs, childlessness and poor economy". The study found that when a man was asked to define poverty, he said, "poverty is me, look at my cloth. I am not sure if I will get and eat food today. My children are not attending school. I cannot afford to take my children to hospital when they fill ill".

Poverty is more severe in the rural areas than urban areas. In rural areas, food security and vulnerability to poverty are substantially caused by marginal land holdings, degraded natural and livestock resources, dependent on agricultural rain fed, low level of asset accumulation, weak local institutions, poor access to essential services and long term entitlement decline associated with worsening terms of trade, poor access of education and health, and poor infrastructure in the country. Like rural areas, Messele (2002) identified that urban poverty is believed to be substantially caused by lack of marketable skill and literacy, unemployment, low level of asset accumulation, weak infrastructure facilities, poor access to essential services, etc.

Trufat (1996) indicated that it seems necessary to include poverty alleviation program in the development strategy of the country. According to Teferi Zewdu (2000), the government uses two strategies to alleviate rural poverty: provision of food and farm input subsidies, credit for the purchase of oxen and free provision of hand tools and seeds; and identification and implementation of rural projects, which can generate employment opportunities in the short term and contribute to future economic growth.

Poverty is the main challenge and fundamental issue in economic development in Ethiopia. The challenge Ethiopia is facing today is to reduce poverty and achieve sustained economic growth for healthy national development. The government is committed to address this challenge in consultation with key stakeholders in the economy, especially the private sector, civil society, Non Government Organizations and other development partners. The strategy entails the participations of all Ethiopians, especially the poor, in the design and implementation of strategies aimed at tackling the challenges of poverty. There is increasing number of households, which are not only absolutely poor but also live far below subsistence level.

According to Wolday Amha (2000), the major causes of the high incidence of poverty in Ethiopia include lack of asset, employment opportunities, income, skill, education, health, etc. The performance of agricultural sector is inadequate to feed the growing population.

To reverse the economic decline and poverty situation in the country, the government of Ethiopia has implemented structural Adjustment program (SAP) in 1992. Berhanu (1999) argued that although the reform programs and policy changes resulted in economic recovery and growth in GDP, the achievement towards eradication of poverty was not satisfactory. He also recommended that without ensuring adequate private sector activities, it is difficult to reduce the existing unemployment problem in the country.

For the country, the combination of decentralization and poverty reduction strategies that have been started in a participatory manner has fundamental implications for rural development. Food security is one of the key indicators of successful in rural development strategy. Some of the core pillars underpinning food security include food availability and accessibility of adequate diet. Investment in rural infrastructure contributes to poverty reduction through increased agricultural productivity, time savings, health and education improvements, improved living conditions and builds capacity of local institutions.

The poverty reduction strategy paper (PRSP) outlines the priorities and measures necessary for poverty reduction and economic growth. To effectively address rural poverty issues in PRSP, several key inputs are needed in the area of diagnostics, target setting and identifying priority public actions. The PRSP builds on past efforts aimed at poverty reduction and strategies necessarily for facilitating sustainable and rapid economic growth, improving governance, raising income opportunities of the poor, improving the quality of life, and improving equity and participation of the poor.

The poverty reduction strategy approach is guided by a set of general principles: giving a voice to the poor, participatory process involving the poor in the economy, transparency, openness and accountability, equitable distribution of natural resources and development initiatives are some of the general principles to poverty reduction strategy.

1.1.3 Microfinancing in Ethiopia

The capacity of the conventional banking sector in Ethiopia has been too weak to serve the need of the rural community. Few woredas in the country have bank branches. Even if there are banks in these woredas, due to high collateral requirements, the rural poor have limited access to the conventional banks. Making credit available, particularly to the rural poor, is thus considered essential to alleviate poverty and promote economic development. Since micro enterprises have very limited access to formal finance credit from banks, specialized financing schemes must be designed to facilitate credit access to the poor, enhancing their productivity and income generating capacity.

Microfinancing is being practiced all over the world as a tool to deliver financial services to the poor with the broad objective of attacking poverty. The past two decades have been seen the development of new microfinance technologies that have lowered the risk and the cost of lending to the poor entrepreneurs and households (Berihanu Digifie and Thomas Yewhalawork, 2000). There are now a growing number of new microfinance institutions in Ethiopia.

The National Bank of Ethiopia (NBE) supervises MFIs in Ethiopia. The Ethiopian government has laid down a regulatory framework for the establishment of MFIs by issuing proclamation No. 40/1996 that provides for the licensing and supervision of MFIs. Since the issuance of this proclamation in July 1996, 22 MFIs have legally been registered and started delivering microfinance services. Table 1.1 describes the list, legal register head office and head office of all MFIs in Ethiopia as follows.

Table 1.1 List, Legal Register and Head Office of all MFIs in Ethiopia

No	Microfinance Institutions	Legal Register	Head Office
1	Amhara Credit and Saving Institution S.C	09/04/97	Bahir Dar
2	Dedebit Credit and Saving Institution S.C	28/04/97	Mekele
3	Oromiya Credit & Saving Share Company	04/08/97	Addis Ababa
4	Omo Microfinance Institution S.C	01/10/97	Addis Ababa
5	Specialized Financial and Promotional Institution	25/11/97	Addis Ababa
6	Gasha Microfinance Institution S.C	10/05/98	Addis Ababa
7	Wisdom Microfinance Institution S.C	17/06/98	Addis Ababa
8	Sidama Microfinance Institution S.C	27/07/98	Awasa
9	Asser Microfinance Institution S.C	08/10/98	Addis Ababa
10	African Village Financing Service S.C	01/12/98	Addis Ababa
11	Busa Gonofa Microfinance Institution S.C	17/05/99	Addis Ababa
12	Poverty Eradication and Community Empowerment S.C	18/11/99	Addis Ababa
13	Meket Microfinance Institution S.C	16/12/99	North Wollo
14	Addis Credit and Saving Institution S.C	27/01/00	Addis Ababa
15	Meklit Microfinance Institution S.C	16/02/00	Addis Ababa
16	Eshet Microfinance Institution S.C	15/03/00	Addis Ababa
17	Wassa Microfinance Institution S.C	20/09/00	Addis Ababa
18	Benishangul Microfinance Institution S.C	09/01/01	Assosa

19	Shahamanne Eddir Yelimat Agar MFI	07/02/01	Shashamanne
20	Metemamen Microfinance Institution S.C	06/02/02	Addis Ababa
21	Mekdella Microfinance Institution	11/06/02	Addis Ababa
22	Dire Microfinance Institution	02/03/03	Dire Dawa

Source: AEMFI and CBE, 2003.

According to Wolday Amha (2000), these MFIs have been aiming at poverty alleviation by targeting specific groups (particularly to the poor) using the group-based lending methodology. The delivery of financial services by MFIs in Ethiopia has been viewed as the strategy to secure food, poverty reduction and development of the economy. Microfinance helps the unemployed become employed, thereby increasing their income and consumption and reducing poverty (Wolday Amha, 2002).

Alemu Tesema (2000) pointed that in developing countries like Ethiopia, there is a growing recognition that microfinance can be an effective tool in creating sustainable services that can bring direct, measurable and beneficial impact on the livelihood of the poor. Entry requirements, which are set out in microfinancing proclamation and the directives of the National Bank of Ethiopia (NBE), include initial minimum capital requirement and organizational set-up, ownership and governance of MFIs. The minimum initial capital set by the NBE to obtain microfinancing business license is Birr 200,000. MFIs in Ethiopia are required to be formed as a share company in accordance with the provision of commercial code of Ethiopia. Company formed under the commercial code has legal personality. The overall objective of these MFIs in Ethiopia is to increase the productive potential of the poor people particularly women headed households (Worku G/Yohanes, 2000). This implies that the primary objective of this program is poverty reduction and elimination.

Microfinance institutions (MFIs) are institutions that provide suitable financial and other services using innovative methodologies and systems at cost to meet the needs of low-income sections of the population and act as financial intermediaries (Wolday, 2000). From its nature, microfinance services, especially credit provision is time and purpose sensitive.

Ledgerwood (1999) argued that microfinancing is growing for several reasons. Some of them are identified as follows: (i) Microfinance activities can support income generation for enterprises operated by low-income households. (ii) Microfinance activities can help to build financially self-sufficient. (iii) Microfinance activities sometimes mimic traditional systems. (iv) Microfinancing activities can strengthen existing formal financial institutions by expanding their markets for both credit and savings.

Interventions through the delivery of microfinance services in Ethiopia have been considered as one of the policy instruments of the government and NGOs to enable rural and urban poor increase output and productivity, induce technology adoption, improve inputs supply, increase income, reduce poverty and attain food security (Meehan, 2000). A good credit policy should not only help in increasing production but it should also help in providing other facilities to the farmers for their all-round development such as marketing and processing of their produces. Microfinance credit policy is a procedure in which activities including client screening, training, loan processing, supervision and loan repayment and credit provision are undertaken.

Wolday (2000) argued that if the full benefit of modern farm technology is to be assimilated by the cultivators, an all out effort should be made to fully meet the credit requirements, particularly of small farmers who constitute the bulk of the population.

Microfinance institutions in Ethiopia provide three kinds of products: Loan products, saving products and insurance products. Loan products include agricultural loan (loan provided to poor members involved in agriculture) and micro enterprise loan (loans provided to urban micro enterprise operators involved in petty trading, handicrafts and services such as selling cooked foods, bars, restaurants, etc). Saving products include compulsory group saving (certain percentage of loan), center savings (used by center leaders for social purposes), voluntary individual savings (open to any person who is willing to deposit) and institutional savings (saving made by governmental institutions, NGOs or associations such as Iddir, mahaber, women and youth associations). The insurance products are at pilot stage by OCSSCO and Wisdom microfinance.

The acquisition of working capital in these MFIs varies and the main sources are regional governments, donors, and commercial banks. Most micro-credit services that were delivered through NGOs and government initiated projects in Ethiopia did not consider saving as one of the most important product both to the client and institution. This basically emanated from a notion that "the poor have nothing to save". However, this notion has been disproved in Indonesia, Bangladesh, Bolivia, and in Ethiopia (Messele, 2002). Considering the role of microfinance activities in alleviating the deep-rooted poverty and enhancing economic development, the government of Ethiopia recognized and supported the innovative financial services of microfinance operators.

Gemechu (2000) found that most of these MFIs have got extensive branch networking and some of them even expanded below branch and have got sub-branch networking structure. Even if institutionalized MFIs are recent issue in Ethiopia, the achievement so far is highly encouraging. As of January 2001, MFIs in Ethiopia had reached 495, 287 clients and delivered credit amounting to about Birr 526 million loans with a total loan outstanding of Birr 273 million. The institutions have also been able to mobilize savings amounting to Birr 129 million. They had also disbursed Birr 239 million of input supply loans to about 786,239 farmers for fertilizers and improved seeds. The institutions have sustained high loan repayment rates, which varies from 94-100% (RUFIP, 2001). Although the development of microfinance sector is very much encouraging in Ethiopia, there are problems and challenges that the sector is facing. Messele (2002) identified that lack of competition, shortage of loan capital, lack of commercial loan, weak law enforcement and weak governance structure were identified as some of the problems facing Ethiopian microfinance institutions. Therefore, MFIs should learn from what their clients wanted and then produce financial products by incorporating the information from the market research or needs survey on one hand and develop built-in tools to measure the impact of their program on the needs of their clients on the other (Wolday Amha, 2002).

1.1.4 Overview of Oromiya Credit and Saving Share Company (OCSSCO)

In many developing nations the rural poor who are typically attached with poverty do not have accessibility to formal financial institutions. Generally in Ethiopia, due to high collateral requirements by formal banks, the majority of small-scale poor farmers have been denied access to financial services. Even there is no bank branch in many Woredas (e.g. Abe Dongoro, Sasiga, etc). To tackle this problem, rural development is mainly the essential tool, credit being the best strategy. Since one of the major problems of the poor is lack of access to credit and saving services, the Oromiya rural credit and savings scheme development project was initiated to fill this gap under the Oromo Self Help Organization (OSHO), which was established to deliver credit and mobilize savings in rural Oromiya in 1996. The project started operation in January 1996 in four districts of Oromiya. The achievement of this scheme leads to the establishment of Oromiya Credit and Saving Share Company. The company is a transformation of this scheme development project.

As per proclamation No. 40/1996, National Bank of Ethiopia (NBE) issued for licensing and supervision of microfinance activities, the NBE registered OCSSCO in August 1997. Since then, OCSSCO, as an independent microfinance institution, has been operating in providing credit and mobilizing savings from members, non-members, associations and institutions.

The general objective of the company is to alleviate poverty and promote economic development through the provision of credit and saving services. The specific objectives of OCSSCO include achieving household level food security in Oromiya, increasing household income and improving the overall economic and social conditions of rural households (AEMFI, 2000). The strategy of OCSSCO is to meet the above objectives include targeting resource poor people, mobilizing both compulsory and voluntary savings and delivering credit to the poor. According to AEMFI (2000) quarterly bulletin, the following are criterion to qualify for OCSSCO's credit and saving services:

- a) The capable poor i.e. those households who have relatively basic resources and can afford to pay savings and loan with interests.
- b) Physical and mental fitness in terms of requirements of the specific enterprise intended to be under taken.
- c) Hard working.

- d) Willingness to join OCSSCO and adhere to group and center laws and joint responsibility for loan repayment.
- e) Good personal conduct and having a recommendable history of trust worthiness in the community.
- f) Residing permanently within the boundary of OCSSCO's operation.
- g) Prompt loan utilization and repayment.

OCSSCO is currently operating largely in rural areas to complement the agriculture lead and rural centered development effect of the Federal Government of Ethiopia in general and Oromiya Regional National State (ORNS) in Particular. It is currently operational only in 70 woredas of Oromiya. Yet, the entire Oromiya region has 190 districts. This indicates that the OCSSCO is at its infant stage to meet the needs of the rural poor. As AEMFI (2000) quarterly bulletin, OCSSCO managed to provide credit and savings services to 41,099 clients. This indicates that OCSSCO has a long way to go to meet the financial needs of the poor in Oromiya region. The shareholders of the company are regional government, associations and NGOs, and individuals.

The microfinance institution gives access to credit to the poor farmers by lending to a group of borrowers who guarantee each other's loan and whose only security is peer pressure. The intervention of OCSSCO in a given kebeles starts by consultations and discussions with the peasant association administrations, identifying local elders, discussing and convincing them in such away that they should honestly identify poor and disseminate the objectives of the institution. The local elders and kebele administrations are responsible to rank peasant association members into poor, medium and rich based on their wealth. Those clients, who have been screened as poor, trained and accept scheme operation from a group on their self-initiation. Group is formed based on the following criteria.

- (i) A group consists of 4 - 6 members.
- (ii) Only one person from a household is allowed to be a member of a group.
- (iii) Both male and female can form a group.
- (iv) In case of Semi-urban areas relatives cannot form a group.
- (v) Member should be from the same village.

(vi) A center consists of 8-10 groups.

The members should have (or establish) trust on each other. The clients volunteer to take joint liabilities which include volunteer to repay loan and save compulsory savings if other group members don't /not willing/can't pay loan. Clients should be those who accept and respect obligatory social traditions. The center formation is based on willingness for center joint liabilities. Those groups come together and form a center.

If group member is absent/not willing to pay/can't pay, the group to whom he/she belongs should pay the loan. If more than 50% of group members are absent/not willing to pay/can't pay, the center to which the group belongs should pay the sum amount that should be paid on the same date and time (this is the group guarantee approach). A group whose member defaulted will not be granted further loan.

OCSSCO's average loan size for the first loan is Birr 1000. A client will obtain the next higher loan after the successful repayment of the first loan. Loan terms of OCSSCO are established at different levels for different activities with a maximum loan repayment of one year.

Loan terms are related with maturity of activities for which the loan is used. Repayment is based on pay as you earn methodology within a year. This method helps the clients in reducing interest expense and the institution in reducing cost of default. The credit program is dedicated to finance agricultural inputs, farm oxen, petty trade, fattening oxen and ruminants, and activities related to farming operations. The company charges 3% service charge to cover expenses during loan processing. 10 Birr is also compulsory for first time borrowers as a membership fee. Groups and centers can set penalty and fining systems for disciplining their members.

Members of groups are encouraged to save. Clients can save any amount, but a minimum of Birr 2 per month as a compulsory center saving, a minimum of Birr 3 per month as compulsory individual saving and group saving is a deduction of 10% of loan disbursed to

an individual. Group saving serves as collateral. Withdrawal from this account is prohibited unless all group members fully pay their loan and interest and quite from their membership. Members and non-members can save as voluntary savings.

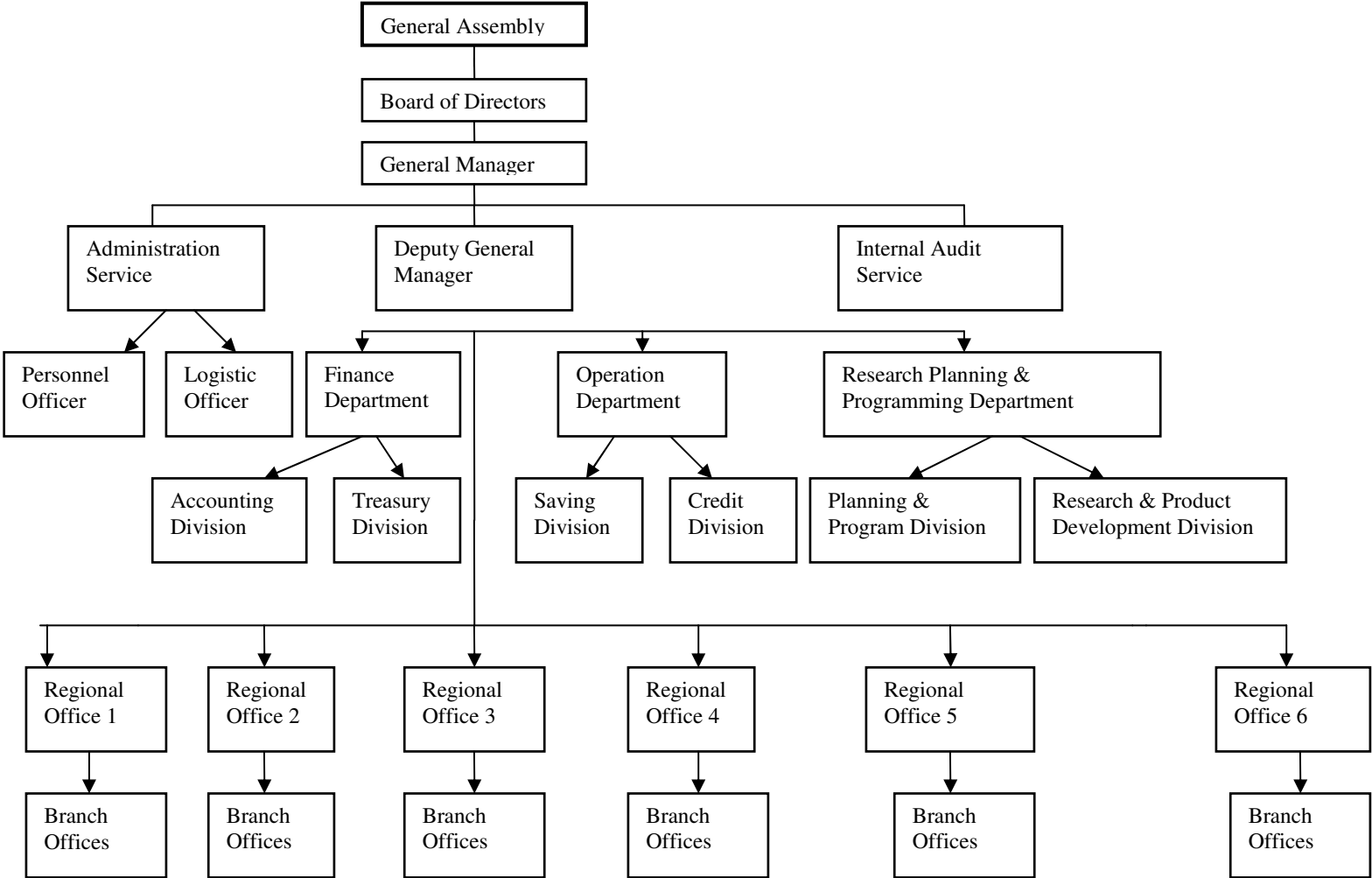
Table 1.2 indicates the number of staff, branches, clients, loan disbursed, loan collected, saving mobilized, and lending and saving interest rates. The company first started in four districts of Oromiya region with loan disbursement of Birr 730, 871.11 for 1529 clients as of June 30, 1996. The operation of OCSSCO for the consecutive years and its organizational structure are shown as follows.

Table1.2 Number of staff, branches, clients, loan and saving products of OCSSCO

Year	No. of staff	No. of branches	No. of clients			Loan disbursed (Birr)	Loan collected (Birr)	Repayment rate (%)	Saving mobilized (Birr)	Interest rate	
			Male	Female	Total					Lending (%)	Saving (%)
1996/97	63	4	1225	304	1529	730871.11	716253.68	98	130864.80	12.5	8
1997/98	63	4	1170	303	1473	619396.21	619396.21	100	1140316.00	12.5	8
1998/99	125	13	7558	1588	9126	8686221.40	8686221.40	100	2707529.00	12.5	8
1999/00	144	29	18051	4358	22409	17595698.63	17243784.66	98	4325378.00	12.5	8
2000/01	204	29	29944	3506	29450	27834311.46	26999282.12	97	5604412.00	12.5	8
2001/02	267	70	36308	5794	42102	41169617.00	39152305.77	95.1	9874436.00	12.5	8

Source: - OCSSCO, 2003

Oromiya Credit & Saving Share Company Organization Chart



Different bodies make supervision and follow-up in OCSSCO. The general manager manages the overall operation of the company. Head office supervises branch offices. Branch offices supervise centers', groups' and members', daily activities. Center chief and secretary supervise the performance of center members. Group leader and secretary are responsible to supervise the daily performance of the group members. Group members also supervise each other and report to group leader if anything wrong is observed. The organizational chart of the OCSSCO is described as follows.

1.2 Statement of the Problem

The prevailing operation of the formal or conventional financial institutions in many low-income countries such as Ethiopia is inefficient in providing sustainable credit facilities to the poor. Access to institutional credit, which contributes to the increase in investment, is very limited in Ethiopia. The majority of the poor access financial services through informal channels, money lenders, Iqub, Iddir, friends, relatives, traders, etc. (Wolday Amha, 2002). Most micro-credit services delivered through NGOs and government initiated projects in Ethiopia did not consider savings as one of most important product both to the client and institution. This was basically emanates from a notion that "the poor have nothing to save". However, this notion has been disproved in Indonesia (the case of Bank Rakyat Indonesia unit Desa system), Bangladesh (the case of Banco sol) and in Ethiopia. Small farmers are taken as high-risk borrowers by formal and informal lending sources. Poor farmers lack access to financial markets. Lack of rural microfinance institutions, which deliver financial services to the poor, is one of the constraints on production in many developing countries. Therefore, targeting credit to the poor is found to be one of the many instruments for poverty reduction. In the Ethiopian context, microfinance institutions have been established and operating with the ultimate goal of poverty reduction.

In spite of the success in terms of outreach and size of clients, weak management information system, limited source of loanable fund, problems related with entrepreneurial quality of clients, limited technical and banking skills of staff, absence of a separate unit in the NBE to address the problems and development of microfinance activities in Ethiopia, wrong perception or impression of the community that loan disbursed by the government and NGOs

are not collectable or could be deferred and very limited research towards improving the financial sector have been observed (Wolday Amha,2000).

According to AEMFI (2000) quarterly bulletin, OCSSCO has been encountered with the following problems: (i) lack of loanable capital to expand operational activities and reach more people; (ii) OCSSCO's loan goes to agricultural activities which are based on weather conditions which cause crop failure and yield reduction that have negatively affected the performance of OCSSCO; (iii) since microfinance is a new business, experience is lacking to cope with this changing environment. Since sustainability of microfinance institutions call for better loan repayment performance, specific case studies on the factors affecting loan repayment have shown that many rural financial institutions sustained heavy losses because of poor loan collection and loan utilization. Arrears on loans affect the lenders ability to generate internal resources and makes the institution depends on external resource of funds. Failure to repay loan at all or partly or not paying on time causes serious problems on sustainability of the institutions.

Although group-credit scheme is considered as important, the impacts of microfinance program in different countries (even in regions) are not the same with different socio-economic and socio-political settings (Mengistu, 1997). Since the microfinance institutions use loanable funds from various sources of finance, it can only sustain its operation if it remains financially sound and produces visible impact on poverty. The impact assessment of microfinance institution, therefore, becomes essential to evaluate whether the objective is successful or not. However, OCSSCO has not undertaken an impact assessment research to indicate the impact of OCSSCO microfinancing scheme to know whether or not the intervention leads to change that is different from that would have happened without the intervention. The study was initiated to fill this gap. Thus, it is necessary to assess the impact of OCSSCO on the indicators of poverty of its clients .

1.3 Objectives of the Study

As explained above, targeting credit and saving services to the poor is one of the many instruments for poverty reduction. Based on this basic idea, MFIs including OCSSCO have been applied in Ethiopia with the ultimate goal of poverty reduction. The objective of the assessment, therefore, is to find out whether the delivery of microfinance by OCSSCO has made a difference in socio-economic situation of its clients. The specific objectives include:

- 1. To assess the impact of OCSSCO microfinancing activities on poverty indicators of its clients.**
- 2. To evaluate loan repayment performance and identifying its determinants.**
- 3. To help MFI to improve the saving and credit programs in order to meet the needs of the clients.**

1.4 Significance of the Study

Identifying the impact of microfinance on living standard of the poor enables the MFI to explore which types of services are required by clients. This information is essential for all microfinance institutions to be demand responsive rather than supply driven in their choice of products and lending methodology. Once the program is under way, understanding the needs of the clients enables program managers to determine what types of clients the program attracts and which of financial services are used by different clients. If the targeted groups are not responding, the MFI can evaluate its methodology and services to better meet the needs of that population. Since there is no single applicable way to be successful in credit provision and saving mobilization, the study will also help the MFIs to meet the basic needs of their clients.

In addition to identifying changes in livelihood of the participants, the impact study assesses the client satisfaction and this will assist the MFI to improve its program. The program impact

with elements of client satisfaction information is useful to program managers who want to maintain program performance by maximizing its effectiveness. The findings highlight the practicality and enables managers to quickly get information that is directly relevant to decisions they face about program policies and operations.

1.5 Limitation of the Study

The study was undertaken in one of the 190 districts of ORNS, or in one of the 70 branches of OCSSCO. Sasiga district is one of the 22 districts or Sasiga branch is one of the four branches in the zone. Due to limited resources (human and material) the study was restricted to 216 respondents of which 108 are clients and 108 are non-clients from the sample branch. The limited number of clients was sampled from 886 clientele of the company at the branch. The results from this study would have practical validity mainly to the study area and can serve as a basic ground for any further studies to be conducted in other areas.

1.6 Organization of the Study

The thesis has five chapters. Chapter one is concerned with the introductory part including background, problem statement, objective of the study, significance of the study, limitation of the study and organization of the study. The second chapter of the paper deals with literature review, which comprises the conceptual framework of the study area. Chapter three describes methodology used. Chapter four deals with the empirical analysis and findings of the study. Chapter five describes conclusion and policy implications.

CHAPTER II: REVIEW OF LITERATURE

2.1 The Need for Microfinancing in Poverty Reduction

Microfinance refers to small scale financial services-primarily credit and savings- provided to people who farm or fish or herd and who operate small enterprises or micro enterprises where goods and services are produced (Marguerite Robinson, 2000). Microfinance has become very famous in the past decade and has boosted among the public interest on poverty reduction tools (ECSC, 2000). The majority of the people in developing countries are considered to be very poor and unable to accumulate substantial savings. They need external finance to break away from the vicious circle of poverty. Lack of access to institutional credit is one of the crucial factors impeding peasant agricultural production in particular and rural development in general.

According to Marguerite Robinson (2000), microfinance institutions are important for poor people in providing credit and mobilizing of savings. MFI can expand and diversify enterprises and helps to reduce risk, improve management, raise product, helps in increase household's income and provide credit at much lower cost than credit from informal commercial moneylenders. Monique Cohen (2000) concluded that access to microfinance is a key risk management strategy for clients, and MF services reduce vulnerability and contribute to poverty alleviation. Scholars and development practitioners have in recent years devoted considerable attention to lend successfully to poor people.

Considerable evidence now shows that an unconventional lender such as Grameen Bank lends to the poor people and so with the reasonable degree of financial self-sufficiency and repayment rates that is significantly higher than for comparable loans by conventional lending institutions (Ghatak and Guinnane, 1999). There are two distinct reasons for the success. First, many of these lending programs ask borrowers to form a group in which all borrowers are jointly liable for each others loan. Second, most micro lenders engage in intensive monitoring of clients and rely heavily on the promise of repeat loans for borrowers who perform well.

Economists have proposed several theories of joint liability lending that stress various aspects of its informational and enforcement advantages over other forms of lending. Institutions that rely on joint liability to facilitate lending to the poor have a long history and are now a

common feature of many developing countries. The economic models of Joint Liability Lending Institutions (JLLI) formalize the idea that a well structured Joint Liability Lending Institutions can deal effectively with the major problems such as adverse selection, moral hazard, auditing costs and enforcement facing lenders by utilizing the local information and social capital that exist among borrowers (Ghatak and Guinnane, 1999). Most Joint Liability Lending Institutions operate in environments where borrowers do not have physical or financial assets to pledge as collateral. Group lending schemes have a long practical history, but much recent interest stems from the performance of the Grameen Bank in Bangladesh. This bank, which lends only to the poor, has enjoyed considerably higher repayment rates than similar credit programs using traditional lending practices (Besley, 1995).

The Bangladesh's Grameen Bank, during 1999, lent to about two million people most of whom are rural landless and women. After the formation of the group, members have been receiving training from bank employees and began weekly meetings. Loans are small and must be repaid in weekly installments over a period of one year. Most countries have established long term credit banks and specialized institutions providing credit for agriculture, small farms and housing. During the past few decades, East Asian governments have helped develop financial markets by creating financial institutions to fill gaps in the types of private credit entities (Stiglitz and Marilou, 1996). According to Jacob Yaron (1994), providing affordable credit to the rural population has long been a prime component of development strategy. Rural credit markets have been at the center of policy intervention in developing countries over the past forty years (Stiglitz and Karla, 1990).

Credits are acknowledged means to alleviate the problem of implementation of improved technologies, which required purchased production means. Credit is needed to support family consumption in case of unfavorable weather conditions and low yield. Credits may be granted in cash or in kind. Credits may originate from private sources or from lending institutions. Institutional credit that encourages investment makes larger contribution to growth in employment and hence leads to economic growth.

The success of the Grameen Bank has been the deriving force behind the rapid expansion of microfinance institutions throughout the developing world. Apart from the Grameen Bank, numerous group-based credit programs have come into existence since a few decades ago

following resource to large-scale projects and dependence on macro policies as the sole tool of poverty alleviation failed to work out in the expected direction (Mengistu, 1997). To this effect microfinancing scheme has been taken up with specific attention directed to the poor people. Generally, Joan Parker (2000), Teferi Zewdu (2000), ECSC (2000) , Monique C. (2000) , Mengistu Bediye (1997) recommended that making rural credit available to the poor is considered as essential to alleviate poverty and improve their living.

Savings can help both clients and MFIs. For clients, savings help smooth consumption patterns during difficult times by covering cost of large expenses such as school fees, medicals. For MFIs, savings increase profitability. By mobilizing savings, MFIs gain access to funds and the potential to decrease their dependency on donor funds if the savings program is successful. The design of appropriate savings facilities can also increase the institutions outreach and help control costs.

Micro savers, however, are not a homogeneous group and represent a number of different market segments with different saving needs. To meet a variety of needs, MFIs should provide a mix of short and medium term deposits that offer a range of liquidity, different rates of return, convenience and flexibility. Through market studies, pilot testing, monitoring and evaluation, MFIs can develop a range of short and medium term products.

Although the benefits of savings are substantial, their success is not dependent solely on their design but also the pricing and marketing process and an understanding of the market. For savings products to thrive in the market place, the MFIs must have a sound management structure and an appropriate management information system to ensure the client deposits are not at risk.

Bamko (2000) argued that microfinance institutions have found that poor households are interested in a variety of savings services and products. Deposit services allow low-income households to save for different reasons including accumulate funds for future investment such as purchasing livestock, children's education, housing construction, purchase of machinery, managing irregular income streams, and social and religious obligations such as

life crises, ceremonies, religious holidays, contribution to local funds and functions, old age and disability (Bamko, 2000).

From the perspective of microfinance institutions' clients, the advantage of deposit facilities includes a combination of access to cash, rate of return and divisibility of savings. On the other hand, from an institutional perspective, well-designed and well-delivered deposit services can lead to the successful intermediation of financial services by microfinance institutions through reducing their dependency on external funding and generating stable stream of capital to support financial operations.

Fedler and Webster (1996) indicated that inclusion of saving in the microfinance menu of services could help in the generation of local funds for micro enterprise development and contribute to sustainability of microfinance institutions. They also argued that saving services enable the poor to accumulate surpluses that can be used at a later date to ride out dips in income or respond to emergencies.

2.2 Assessing MFI's Microfinancing Scheme on Poverty Reduction

Assessing microfinance impact has been the main concern of development specialists in order to know whether or not providing financial services to the poor has reduced the poverty. The impact may be measured using indicators such as income, wealth, food security, child nutrition, employment, quality of life, or gender relations. Khandker (1999) argued that the immediate impact of having access to credit from a micro credit program is on employment and income in which these may have impact on other outcomes such as consumption, nutrition, contraceptive use, fertility and education. According to Meehan (2000), there are many supporters of micro credit provision who would agree that well designed lending programs could improve the income of the poor people.

Fidler and Webster (1996), however, stressed the existence of methodological difficulties associated with the measurement of the impact of the program towards poverty reduction. They proposed the descriptive approach in assessing the impact of microfinance on poverty

reduction by comparing the beneficiaries' outcomes before and after loan or outcomes of clients and non-clients.

Joanna Legerwood (1999) stated the three broad categories of impacts of microfinance activities.

- (1) Economic impacts (business expansion, income, accumulation of wealth and consumption).
- (2) Socio-political or cultural impacts (changes in favor, changes from barter to monetized economy, hope for changes in power, redistribution of assets, nutrition and education).
- (3) Personal or psychological impacts.

According to Joanna Legerwood an impact from one of these categories can in itself cause an impact on one or more of the others. The poor participate in micro-credit programs in the expectation that borrowing will increase their income and sustain self-employment.

Khandker (1999) argued whether participation in micro-credit programs does in fact reduce poverty in terms of consumption and help increase income and employment on a sustained basis could be measured directly. The benefits of program participation can also be measured indirectly, by measuring changes in socio-economic outcomes. This implies that the effects of micro-credit programs on participants can be measured in terms of consumption, nutrition, employment, net worth, schooling, contraceptive use and fertility. The study argued that changes in income and employment among program participants might affect the living standard of the poor. There are two important factors that determine the overall impact of the program. These are the growth potential of activities financed by the micro credit programs and the extent of credit market imperfections that are resolved with enhanced availability of credit.

According to AIMS (2000), the purpose of an impact assessment is to answer the question of whether a project leads to change that is different from what would have happened without the intervention, or whether the program increases the probability of that change. In the context of the rapid growth and evolution of microfinance industry, impact assessment is a

critical to classify whether or not the changes occur on the livelihood of the clients. Establishing impact is making a credible case that the program led to the observed or stated changes, meaning that the changes are more likely to occur with program participation than without program participation. It does not imply that the changes always occur from program participation. Rather, it increases the probability that the changes will occur.

The type of change we are looking for can occur for multiple reasons, many of which are not related to program interventions (AIMS, 2000). There are factors that enhance or constrain opportunities for change but are not directly linked to the program intervention such as gender of client, number of household members, price of business inputs and external factors.

According to AIMS, searching for impacts requires lens on the full range of family/household economic activities because the micro enterprise is firmly embodied in the family/household especially among poorer families. How the micro enterprises fit into overall economic strategies depends on the following factors.

- i) The composition of the family, which will vary in different locations and cultures.
- ii) Decision-making within the family about investments and the selection of productive activities.
- iii) How the family is linked extremely to larger social networks through which it gives and receives resources.

Ledgerwood (1999) argued that most microfinance institutions see microfinance as a cost effective means of poverty reduction, but the detailed intentions and expectations of microfinance programs can differ considerably. Impact of microfinance activities may fall at the level of the economy itself.

Hulme (2000) identified three elements of the framework for the study of impacts. The first is the specification of levels at which impacts are assessed. The second is the specification of the types of impact that are to be assessed. The third is models to be used for the study.

2.2.1 Assessment Levels

Impacts can be assessed at different levels. According to Hulme (2000), the common units of assessment are the household, the enterprise or the institutional environment within which agents operate. Khandker (1999) and Ledgerwood (1999) stated that impact can be assessed at household, enterprise, individual and community levels.

According to Yaron (1997), there are two major schools of thought that are prominent in impact assessment of microfinance programs. The first one purely focuses on the organization or company and its operation. This approach focuses on institutional outreach and its sustainability. The assumption is that if both outreach and sustainability have been enhanced, then the intervention is judged to have a beneficial impact as it has widened the financial market, which in turn extends the choice of people looking for credit and saving services. The second approach is the one, which focuses on the intended target groups or clients. This is the case that is developed by USAID's AIMS project that seeks to assess impact at household, enterprise, individual and community levels.

According to AIMS (2000), the framework posits that impact occurs at the levels of household, enterprise, individual and community. At the household level, microfinance contributes to net increase in household income, asset accumulation and labor productivity. Income invested in assets such as saving and education increases household economic security by making it possible to meet basic needs. This relationship clarifies paths of impact by which microfinance interventions can contribute to the goals of poverty alleviation and economic growth, and thus, households improve their economic security. To assess changes within this relationship, impact can be assessed in the movement of household's livelihood toward or away from greater economic security.

2.2.1.1 Impact at Household level

Assessing impact at the participant level requires adjustments to control for differences in unobservable household and village characteristics. That is, to measure the credit impacts of

programs that are due to variations in individual level participation, it is necessary to control for differences in village level characteristics that attract a program to a particular village.

According to Yaron (1997), the impact of program placement on village level average income, employment and poverty is estimated by fitting a village level regression that measures the differential impacts of program placement at the village level while controlling for observable characteristics of the village. Group-based credit program may be efficient for joint production and consumption behavior of households. It may also be beneficial for such households to borrow from group-based credit program, which charges less than informal lenders, in order to make more efficient use of available resources, mainly family labor. In this case, the evaluation of the effects of program participation on households' resource allocation is based on this efficiency argument (Khandker, 1999).

Assessing the impact of credit involves one basic problem: unless households are shown to be credit constrained (meaning that households are constrained by a lack of liquidity and do not have access to credit to solve their credit problems), it may be difficult to show the impact of credit on behavioral outcomes such as income and employment.

Khandker (1999) recommended that rather than formally test whether borrowers of group-based credit programs are credit constrained, he assumed that program participants were credit constrained by program design. This assumption seems valid for several reasons. First, in the case of group-based lending to the landless, the time path of credit allocated to members is part of the dynamic optimization problem of a group, and the level of credit provided to each individual in the group is tailored to fund a new self-employment project of certain size. Second, the cost of credit includes not only the interest rates but also the timing of repayment and the penalties associated with defaults. Third, group-based credit is packaged with both responsibilities (meeting attendance, forced saving, shared default risk) and benefits (training, insurance, and consciousness-raising), which are likely to make the cost of credit endogenously determined by household characteristics. Finally, the close monitoring aspects of group-based lending make group credit no fungible.

If there were no monitoring of the use of borrowed funds and no group responsibility and decision-making in the lending program, individuals would likely want to borrow much more than they actually do in order to capture the premiums associated with the soft terms of the loans. The most important effect of borrowing from a micro credit program is its impact on per capita expenditure. Because borrowers are poor, increase in consumption as a result of borrowing from a micro credit program constitute an immediate welfare gain. Micro credit programs facilitate self -employment, mostly in rural non-farm activities that can be undertaken at home without high transactions costs.

Microfinance had a significant impact on children's schooling, especially for boys and nutritional well being. Households relying on agriculture are likely to reduce the effects of the seasonality of agriculture by diversifying into rural non-farm activities. Participation in a micro credit program had a positive effect on per capita expenditure, consumption and net worth. Micro credit also affected socio economic variables, including children's schooling and children's nutrition (Tsehay and Mengistu, 2002).

2.2.1.2 Sustainability of Microfinance Institutions

Hosain (1988) argued that the Grameen Bank approach has a fair chance of success in densely settled poverty stricken areas of Asia, but for Africa an appropriate delivery mechanism has to be worked out through trial and error. The Grameen Bank's approach of formation of small homogenous groups for group guarantee of loans and supervision of loan utilization, recovery of loans in small regular installments and institutions for collective saving could work well across different environments. However, elements like taking the bank to the poor people and intensive interaction of bank staffs with borrowers may not appropriate and could become too costly for sparsely settled people.

According to Mengistu Bediye (1997), to be successful in credit provision and savings mobilization, there are a number of strategies that can be adopted but there is no single approach, which is applicable for all countries. For example, Grameen Bank approach may not work for all in delivery of credit but one of the important lessons is that appropriate

procedures can be developed only after considerable experimentation through thorough understanding of the physical and socio economic conditions.

Hailu Legese (2000) concluded that credit analysis and appraisal should at least cover the following points: Client background, past and existing client institution relationship, purpose of loan, group pressure (collateral), business plan, risk analysis and recommendation. After the disbursement of loan, credit monitoring is important in ensuring that loan proceeds are directed to the intended purpose and provide appropriate advice to the borrowers. Hailu also concluded that credit and risk management deserves special emphasis because it determines the survival of the institution offering credit services.

Berhanu Lakew (1999) argued that good loan repayment performance is important for smooth operation and efficiency of most credit programs and the subsequent provision of funds for future lending. Adams (1988) suggested the criteria for success of loan recovery. The criteria should include the number of clients, declining transaction costs overtime, improved loan recovery and total volume of savings achieved. According to Frank Elis (1992) loan defaults are caused by two main factors. These are inability to repay and unwillingness to repay.

Mengistu (1997) indicated that loan size, household income, level of education, supervising, borrowers' attitude to loan repayment, number of sources of income, loan diversion, household size, household dependents and value of assets, of the borrower are the major factors affecting loan repayment performance.

Vigano (1993) also found that, in addition to the above stated variables, timeliness of loan issue, loan maturity and credit experience were found to have major impact on repayment. Moreover, it may also be a function of the borrowers' perception about the penalties of not paying, especially in terms of getting future loans. The success of microfinance institutions in this group-based lending scheme relies on their financial sustainability. For microfinance institutions that are involved in assessing development of the poor, it is recommended that profitability and sustainability should be the final goals, and therefore, it is one of the indicators of success.

Hunte (1996) argued that loan default is the tragedy because failing to implement appropriate lending strategies. It may also deny new applicants access to credit, as the bank's cash flow problems exist. Sustainable credit operations should involve efficient lending systems and disbursements that are followed by loan repayment. Striving to meet credit needs without concern for lending strategies and loan collection is thus a futile exercise (Mengistu, 1997). Experience has shown that many rural financial institutions sustained heavy losses because of poor loan collection

2.2.2 Impact Indicators of Poverty

Income, assets, welfare and consumption expenditure can be used as indicators of impact. The framework by Ledgerwood (1999) defines domains of impact indicators to measure impact at the household, enterprise, individual and community levels. At the household level, income, assets, consumption expenditure and basic services are indicators of impact assessment. At the enterprise level, five domains of development include the resource base, production process, management, markets and financial performance. At the individual level, three domains of well being include independent control of resources, leverage in households' decision-making units and community participation. At the community level, four domains of development include net changes in employment and income, forward and backward linkages, social networks and civil participation.

According to Chekol kidane (2002), the changes of these indicators that indicate the movements at different levels toward or away from greater economic security are believed to suggest the role of microfinance interventions in expanding options for poor women and men in relation to the broader development goals of poverty alleviation and economic growth.

According to AIMS (2000), domains of household security include income, assets and expenditures. This study also identified that microfinance impact at household level leads to increased income, increased assets and increased welfare (in such aspects as food security, housing and health).

2.2.3 Models of Impact Assessment

In the case of microfinance impact assessment, one needs to conceptualize how microfinance leads to changes and what changes are reasonable to expect given the services provided and loan conditions. The assumption is that interventions will change human behaviors and practices in ways that lead to the achievement or raise the probability of achievement of desired outcomes. More specifically, impact is measured in terms of outreach and sustainability of MFI, and it is believed that if both are achieved then the program is beneficial (Hulme, 2000). In addition, as stated above, impact can also be measured at different levels of the economy. Therefore, models have to be identified to capture the explanatory variables.

A variety of multivariate statistical techniques can be used to predict a binary dependent variable from a set of independent variables. When one or more of the explanatory variables in regression model are binary, it can be represented as dummy variable and appropriate models are expected to be applied. However, the application of the linear regression model when the dependent variable is binary is more complex and /or even not efficient (Pindyck and Rubinfeld, 1981). The dependent variable, which is dichotomous taking on two values, zero and one, requires the use of qualitative response models. In this regard, the ordinary least squares (OLS), descriptive analysis, multiple regression models, linear probability models, Logit, Probit and Tobit models are the possible alternatives.

However, several estimation problems can be raised from some of these alternatives. As Gujarati (1992), linear models or Ordinary Least Square (OLS) estimation methods have been used to see the effects of independent variables when the dependent variable is continuous. The author noted that using the linear probability models where the dependent variable takes either 0 or 1 is found to have several problems such as non-normality, heteroscedasticity of disturbance term, non-fulfillment of the criteria that the probability of the occurrence within the range 0 - 1 and lower value of coefficient of multiple determinants (R^2) as a measure of goodness of fit. Using linear probability model may generate predicted values outside the 0-1 intervals, which violates the basic tenets of probability. To alleviate these problems Gujarati (1992) argued that the most widely used qualitative response models are the Logit and Probit

models. Comparing with descriptive analysis model Feder(1985) noted that the Probit and Logit models appear to be preferable to discriminate function in analyzing studies involving qualitative choices. An extension of the Probit model is the Tobit model. The Probit model is associated with the cumulative normal probability function, the Logit model assumes cumulative logistic probability distribution whereas the Tobit model assumes censored regression model. Such models including the Logit model are usually estimated by the maximum Likelihood methods (MLM). Since the logistic regression model is non-linear, an iterative logarithm is necessary for parameter estimation (Gujarati 1992). More important, the advantages of Probit, Logit and Tobit models over the linear probability model are that the probabilities are bound between 0 and 1. Moreover, they best fit to the non-linear relationship between the probabilities and the explanatory variables.

Gujarati (1992), Maddala (1988) and Feder (1985) have recommended Tobit model for function forms with limited dependent variables that are continuous between 0 and 1, Logit and Probit models for discrete dependent variables. For this study, therefore, Probit and Logit models are used in addition of descriptive analysis using ratios & percentages.

2.3 Empirical Evidence

Different studies in different disciplines used different approaches to assess impact.

Khandker (1999) studied the impact of three micro credit institutions in Bangladesh on selected household levels. The study found that the most important effect of borrowing from a micro-credit program is its impact on per capita expenditure. The study also pointed out that the participation in group-based microfinance shows positive and significant impacts for school enrollment, asset holdings, consumption, nutritional status and household net worth of borrowers in all three programs.

Two major studies have assessed the economic impact of Grameen Bank on rural households. First, the study was undertaken by Hossain (1988) in the mid 1980s. It was based on structured survey of 975 borrowers in 15 villages. Household level information was collected from a random sample of 200 households in five villages and 80 households in two control villages. The study produced several types of evidence indicating the positive impact on the

economic status of Grameen Bank borrowers. The loans had generated new employment, which reported that they were unemployed before joining the program. Incomes in member households were 43% higher than in target group households in the control villages. The study also reported increases in per capita food consumption in member households and more in housing and education. The second was by the World Bank in collaboration with the Bangladesh Institute of Development Studies used data on consumption, savings, asset ownership, and net worth to assess the effects of micro credit programs on poverty. The data were collected from members of the program and non-members. Based on the above measures, the researchers argued that Grameen Bank not only reduced poverty and improved welfare of participating households, but they also enhanced the households' capacity to sustain their gains over time (Khandker, 1999).

Joanna Ledgerwood (1999) pointed that successful microfinance institutions contributing to poverty reduction are particularly effective in improving the status of the middle and upper segments of the poor. However, clients below the poverty line were worse-off after borrowing.

Even though operations of MFIs in Ethiopia are a recent phenomenon, not more than seven years, studies have been undertaken on different aspects including impacts of the services of the institutions. For example, Fiona Meehan (2000), Berahnu (1999) and Teferi (2000) concluded that microfinance scheme in Ethiopia has a positive impact on household nutrition, asset accumulation and net welfare of the program participants.

Meehan (2000) made impact assessment on the performances of DECSI. The study was based on both primary and secondary data to analyze the impacts of the services of the institution. Respondents were asked to assess the impact of DECSI financial services on their household income. According to Meehan (2000), majority of respondents reported a considerable, a few reported relatively modest increases in their household income, few said there had been no change in their economic status and very few reported they were worse off. The result of the study stated that women were more likely to have taken on new activities and more likely to complain that the loan size was insufficient.

Berhanu (1999), from his study of micro-credit and poverty alleviation in Ethiopia, identified that more than 70% of the respondents under his study reported the positive contribution towards employment creation, income generation, improved access to health and educational facilities as well as household nutrition. Teferi (2000) also argued the positive contribution on the average monthly total income of the program participants from his study of microfinance and the poor in Tigray.

Berhanu (1999) and Teferi (2000) found that the performance of saving mobilization from the clients was not satisfactory since the majority of the respondents have no saving accounts after the loan scheme even though there seems to rise the number of saving accounts of the clients. From the study of Berhanu (1999) and Teferi (2000), it is possible to estimate the performance of loan repayment rate of ranging between 79% and 98%.

Tsehay and Mengistu (2002) concluded that the credit and saving institutions intervention among poor women in Ethiopia has made some positive effects that made a difference on the socio-economic empowerment of the women clients.

RUFIP (2001) showed that the sustainability and loan recovery depend on weather conditions, which in turn affect the level of the income of the borrower. According to this case study of the project, Nigus H/mariam is a farmer in Tsirare who took loan from DECSI in 2000 and sown wheat, teff and beans could get only one quntal of wheat and teff and half quntal of beans. Because of this failure of crops, he has to sell five cows and three oxen to buy cereals for his 8 children and wife consumption. This implies that unless this guy has other sources of income, he could never repay the loan. On the other hand, the study found that Keteme Bekele who is a resident of Achefer Woreda town in Amhara region, initiated her business only after joined in ACSI. She trades maize, Sorghum, Chickpeas, Wheat, Teff and Millets. After initiating the business, she owned two cows and house worth of Birr 2,500. She had very happy about earning money on her own and derived support from her group for problem solving in her business. She also planned to continue in the same business and expand in future. This implies the successful of her business activity (RUFIP, 2001).

2.4 Overview of Financial Sector & Credit Policies in Ethiopia

Finance refers to the process by which markets deal with cash flows over time. Financial markets make possible for individuals, partnerships, and governments to borrow and lend. Institutions that perform this sort of market function, matching borrowers and lenders or traders are called financial intermediaries such as banks, MFIs, credit and saving associations. Financial sector can play a significant role in improving food security, alleviating poverty and economic growth. However, the capacity of the conventional banking sector in Ethiopia has been too weak to serve the need of the rural community. Access to institutional credit is very limited. The majority of the rural poor get access to financial services through the informal channels. The demand for rural finance is met through the informal sector.

Before 1974, there were participation of private and government financial institutions. The military government of Ethiopia, which took power in 1974, nationalized private banks in favor of socialism. The state owned banks were Commercial Bank of Ethiopia (CBE) and other financial institutions such as Ethiopian Investment Cooperation, Ethiopian Savings and Mortgage Corporation Share Company and Home Ownership Public and Imperial Savings Association. Housing and Saving Bank (HSB), now CBE, was created by merging the Savings and Mortgage Corporation of Ethiopia Share Company and Home Ownership Public Association by Proc. No. 60/1975. Agricultural and Industrial Development Bank (AIDB) was reestablished in 1979 recognizing the Agricultural and Industrial Development Bank Share Company by Proc. No. 158/1979 (Gebrehiwot, 1997).

Until 1994, the formal financial sector consisted of Central Bank of Ethiopia, Development Bank of Ethiopia, Commercial Bank of Ethiopia, two contractual financial institutions (Ethiopian Insurance Corporation and Social Security Authorities) and about 484 Saving and Credit Cooperatives (Gebrehiwot, 1997). The structure of financial sector in Ethiopia has been characterized by high concentration in terms of ownership and geographic distribution of intermediation activities. According to Gebrehiwot (1997), during the Derge regime all financial institutions except saving and credit association were state owned.

The National Bank of Ethiopia and Commercial Bank of Ethiopia accounted for more than 71% of net bank assets. World Bank (1991) reported that about 80 %of Commercial Bank of Ethiopia (CBE) and AIDB loans and 91 % of Housing and Saving (HSB) loans were in Addis Ababa city, which is residence for only 5 % of the population. This implies high concentration of services in one area. Almost all financial institutions were publicly owned and entry was barred, there by establishing a public monopoly in the financial sector. Bank credit was administratively allocated mainly to the social sectors i.e. public enterprises, state farms and cooperatives. The financial intermediaries were highly biased in favor of social sector of the economy, which discourages the expansion of the financial market. The bulk of Ethiopian population made little or no use of formal savings and lending institutions. In a country where more than 85 % of the population lives in rural areas, few banks and savings and credit associations operation was limited to urban areas (Dejene Aredo, 1993).

Following the overthrow of the Derge regime, changes in economic policies as well as political, administrative and institutional structures began to be introduced by Transitional Government of Ethiopia (TGE), which took power in 1991. The changes aimed at removing restrictions on private sectors. Policy changes have been observed in the light of private investment in the financial sector, availability of loanable funds, entry and competition in the financial sector. Regulatory, supervisory and institutional reforms have been undertaken. It broadened the scope of private sector and shrinked state control over the entire economy (Gebreerhiwot, 1997). Since 1991 the expansion of banks and bank branches, introduction of insurances and MFIs have been observed. The incentives further improved by Proc. No. 37/1996 by Federal Government of Ethiopia which took power in August 1995.

Renee Chao-Beroff, et.al (2000) argued that the most effective tool of poverty reduction and achieving security in Ethiopia is enhancing rural financial intermediation. The major sources of finance in Ethiopia are conventional banks, insurance companies, cooperatives, government projects, NGOs, Semi-formal and informal sectors and microfinanace institutions. Recently, financial sector has been increasing through both

branch expansion and emergence of new private sectors. Currently, there are 9 banks, 9 insurance companies and 22 microfinance institutions. These financial intermediaries can be broadly categorized as follows:

a) **Conventional Banks and Insurance companies:** These banks include Commercial Bank, Development and Construction Bank, and Business Bank licensed and supervised by National Bank of Ethiopia as per Proclamation No. 83/94. These banks and insurance companies are broadly categorized into public banks and insurance companies and private banks and insurance companies. Following the downfall of socialist regime, financial market liberalization was adopted. As a result, several privately owned commercial banks and insurance companies were established. Six privately owned and three public commercial banks, one public and eight private insurance companies are operating in Ethiopia, of which CBE is the only bank involved in providing agricultural credit to rural poor farmers through agricultural development offices with the regional government providing the guarantee (Messele, 2002). RUFIP (2001) stated that both CBE and DBE have a network of 202 branches following the recent liberalization of economy and the six privately owned banks with a network of 67 branches. Most of the branch network is, however, concentrated in urban areas.

b) **Cooperatives:** These include multi-purpose and credit and saving cooperatives. According to Messele (2002), there were 6,552 registered cooperatives in Ethiopia where 3,737 are agricultural based while others are saving and credit cooperatives. However, development cooperatives faced the challenges such as concentration in urban areas, weak financial auditing and inspection service.

c) **Government projects and NGOs:** Many of these have initiated and implemented micro-credit activities as a tool to poverty reduction endeavors.

d) **Semi-formal and Informal sectors:** These sectors provide financial services outside of the direct control of the state authorities. Informal sector includes revolving saving and credit associations, moneylenders, friends, relatives, neighborhood, and whole sellers, Iqqub, Iddir

and Mahaber. These traditional structures are self-initiated organizations formed on the basis of social cohesion, economic status and some times ethnic origin. They comprise similar socio-economic status who known each other well and have been living within the same locality for some time. According to Dejene (1993), Iqqub is important source of finance for the poor household in Ethiopia.

e) Microfinance Institutions: **The inability of conventional banks to address the financial demand of the rural poor put the consensus that reached to design new strategies for delivering financial services to the poor. The microfinance institutions mainly designed to provide rural banking services and mobilizing small savings. Good practice in microfinance is based on the ability to provide appropriate financial services to individuals and households that are otherwise excluded from the financial system (Joan Parker, 1998). Currently, there are 22 MFIs engaged in providing microfinance credit and saving services to the poor in different parts of the country. The details of the MFIs were discussed in the first chapter.**

CHAPTER III : METHODOLOGY

3.1 Description of the Study Area

Oromiya Regional National State is the largest state of the country, Ethiopia. It is the largest region in terms of area, population, contribution to national economy, etc. The region consists of fourteen administrative zones and 190 districts. The rural part of the region has 10,161 kebeles while the urban part has 564 kebeles in 375 towns (CSA 1994). The study was conducted in ORNS, Eastern Wollega Zone, Sasiga district.

The capital city of the zone, Nekemte, is situated at western of the country, which has a distance of 331 K.M. from Addis Ababa. The zone has 22 districts and organized into 476 kebeles with a total area of 21,980 Sq.K.M. The topography of the zone varies from place to place. The zone is divided into three agro-ecological zones, namely, lowland, medium and highland that cover 20.5%, 50.9% and 28.6% of the total area of the zone,

respectively. The economic basis of the zone is agriculture. The majority of the population depends on agriculture for their livelihood. Out of the total area, about 86.51% of land can be used for agricultural activities.

The total population of the zone for the year 2002/03 is estimated at about 1,825,145 of which 749,859 are male and 775,286 are female. About 87.7% of the total population of the zone engages in agricultural activities. Others include those who participate in trading, civil servants and unemployed people.

The particular study area is Sasiga district, which is one of the districts in the zone, which is situated at a distance of about 45 K.M. away from Nekemte to the west. Sasiga branch is one of the branches of OCSSCO, which is first established in the zone. The major economic activities of the population in the district include farming, animal rearing and petty trade.

3.2 Scope and Process of Data Collection

The study was conducted in Eastern Wollega Zone of Oromiya Regional National State. The survey was conducted on respective sample of respondents from the Zone. Three stages sample design procedure were adopted for the survey. The first stage is the selection of sample branch of the OCSSCO. The second stage is the selection of sample kebeles. The third is the selection of sample respondents from the selected kebeles.

The OCSSCO has four branches in the zone (Sasiga, Bilasayo, Guduru, Gatama).The selection of study branch was based on the time spent in the program i.e branch of long duration. Thus, Sasiga branch, which has more duration of time in the program, was used as study branch. The Sasiga branch has been operating in ten kebeles of the district. Using

simple random sampling method, six kebeles were selected. The selection of respondents was based on frequent clients and non-clients of the program.

Two clusters of respondents were first identified from the total population of sample kebeles. The first cluster was from frequent borrowers who are clients for at least two years. The second cluster was from non-clients who have not stayed in the program. The total sample size was 216. In terms of length of program participation, 108 were selected from frequent borrowers while the remaining 108 were from non-clients who make up the control group.

Orientation was given to the enumerators who were selected based on their experience in conducting interview with the program clients and non-clients in order to show them how to go about conducting the subsequent interviews.

3.3 Impact Assessment Tools

The data to assess impact were collected from primary and secondary sources. The main sources of primary data were from the clients under Oromiya Credit and Saving Share Company using structured questionnaire. The household data were collected from frequent clients since their program participation. For those who are non-clients, information on the variables was concern of for the last two years. The questionnaire was first prepared in English language. Then it was translated into “Afaan Oromo” to facilitate the interview process. The questions were designed to collect information on indicators of impact assessments such as household characteristics, loan utilization, loan repayment information, income, employment, education, consumption, borrowing, assets ownership, savings, children’s schooling, medical facilities and other related issues. Side by side with this, respondents were interviewed to obtain information on clients’ likes, dislikes, and recommendations about the program. The main sources of the secondary data were from different MFIs’ reports, literatures, etc.

Both quantitative and qualitative data were used to measure the impact of the program. Quantitative techniques were used to drive an empirical estimate of the impact of an

intervention on the target groups. A qualitative method is used to show the direction of change and individual's perceptions.

3.4 Hypotheses and Data Analysis

There are two major schools of thought that are prominent in impact assessment of microfinance. The first approach is the one, which focuses on the intended target groups or clients. This is the case that is developed by USAID's AIMS project that seeks to assess impact at household, enterprise, individual and community levels. At household level, impact is measured by increase in household income, asset accumulation and labor productivity. i.e income, assets and welfare (Tsehay and Mengistu, 2002). Household assets include radio, chairs, tables, benches, livestock, plants and land. The welfare that was included in consideration is housing improvements, household nutrition, education and medical facilities. The second one purely focuses on changes on the organization and its operation. This approach focuses on institutional outreach and sustainability (Yaron, 1994). The assumption is that if both outreach and sustainability have been enhanced, then the intervention is judged to have a beneficial impact as it has widened the financial market. This, in turn, is based on the assumption that institutional impact extends the choices of people looking for credit and saving services and this extension of choice ultimately leads to improved micro enterprise performance and household food security (Tsehay and Mengistu, 2002).

Because of the impact assessment approach stated above, this study focuses on the intended target groups or clients and the outreach and sustainability of the institution.

Here, the study is limited to the impact at household level, outreach and sustainability because of time and budget constraints. The sustainability of the institution is measured based on the loan repayment performance. Data analysis follows upon completion of data coding and organizing. The SPSS is the statistical software, which is used for analyzing the data. The Logit and Probit models are used in the study. The following methodologies are employed in analyzing impact assessment of OCSSCO microfinancing scheme on poverty reduction and loan repayment performance.

3.4.1 Impact Assessment at Household Level

At the household level, the impact of microfinance intervention is observed in association mainly with income, assets, and social empowerment of the frequent borrowers by comparing with the non-clients. In order to evaluate the impact of OCSSCO's microfinancing on poverty reduction, the methodology suggested by Fidler and Webster (1996), which is the evaluation of changes in user livelihoods as a result of microfinancing scheme, is employed. i.e. compares the livelihood of clients and non-clients.

According to Johanson and Rogaly (1997) impact analysis requires control group which is a sample of people similar in every respect but who have not received a loan or those who have not been members of the program not for more than one year, to compare with sample clients that have received loan for more than two years. In practice it is difficult to find control group that are exactly similar to credit worthy borrowers. To mitigate these problems, the study uses non-clients as a control group because they were already identified as they do have similar characteristics with those of frequent borrowers i.e. they were identified as poor.

Assessing impact at the participant level requires adjustments to control for differences in unobservable household characteristics. The impact of the program is assessed at household level based on average income, which in turn affects access to education, access to medical facilities, nutritional status, savings, employment generation and empowerment, among others, which are indicators of poverty. This is estimated by fitting regression that measures the differential impacts of program placement at the village level while controlling for observable characteristics of the household level.

An appropriate measure of the impact of the microfinance services on economic status of the clientele, which is reflected on income level, is treated as a dichotomous dependent variable (it takes 1 if income is improved and 0 otherwise). The functional relationship between the probability of improvement in income and explanatory variables is specified as:

$$Y = F(\text{RES}, \text{LS}, \text{VIS}, U_1) \text{-----}(1)$$

Where: Y = Average yearly income of household

RES = Respondents (clients and non-clients)

LS = Loan size

VIS = Voluntary individual savings

U_1 = Error term

The explanatory variables that affect the economic status of the respondents are expressed both qualitatively and quantitatively. Where the dependent variable is dichotomous, many studies show that Probit and Logit models are appropriate. Since the Logit model is simpler in estimation than Probit model (Alderic and Nelson, 1984), Logit model is preferred to the Probit model for this study. Therefore, following Gujarati (1992), the Logit distribution function is specified as:

$$P_i = 1/(1+e^{-z_i}) \text{-----}(2)$$

$$Z_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \dots + \beta_n X_{ni} \text{-----}(3)$$

$$P_i = 1/[1+e^{-(\beta_0+\beta_1 X_{1i}+\beta_2 X_{2i}+\dots+\beta_n X_{ni})}] \text{-----}(4)$$

Where P_i = Probability of improvement in income in relation with the explanatory variables

e^{z_i} = Irrational number to the power of z_i

z_i = A function of n explanatory variables

β_s = parameters.

Thus, the probability of improvement in income in relation with the explanatory variables is explained based on the sign of the coefficients. The parameters tell how the economic status of the clients and non-clients changes as explanatory variables change. The positive sign of the parameters show the trend that the changes of the variable are greater in clients than non-clients.

Therefore, descriptive analysis and the Logit model have been made and the analysis of the assessment is based on the following variables.

a) **Income:** One of the immediate impacts of having access to credit from OCSSCO microfinancing is on income. The household is usually expected to benefit from the credit in terms of, among others, improvement in income. Income may have impact on other economic conditions. The clients' monthly income, which includes income from the loan and other sources side by side, was collected.

b) **Program Participation:** participation in microfinance program is expected to create or/and expand potential of activities financed by the program. It also reduces the extent of credit market imperfection that is resolved with enhanced availability of credit. Suing a participation dummy would allow the average returns to participation. Thus, the participants are expected to benefit from the program in terms of improvement in income.

c) **Loan size:** It is also expected to improve productive capacity of the intended activities, which inturn have a positive impact on income.

d) **Voluntary Individual Saving:** There are two types of savings in the MFI's scheme. The first one is a compulsory saving, which is normally enforced and starts simultaneously with the loan that is approved for an individual. On the other hand, voluntary savings is an individual savings, which depends on the willingness of the individual to save. Therefore, for this analysis, voluntary savings is considered.

e) **Educational Facilities:** The second variable is access to educational facilities. Thus, enrollment of school-age children and the responsiveness of access to education are considered.

f) **Medical Facilities:** Respondents can be asked to recall their monthly average medical expenditures. However, similar to education, they may not able to estimate the medical expenditures. Information on the number of members who were ill or injured in the household

and taken for medical treatment was collected. Thus, a response to medical facilities is considered.

g) **Nutritional Status:** The immediate impact of microfinance is on income, which is expected to have impact on consumption expenditure of households' diet. Thus, consumption expenditure is used to evaluate the effect of the access to credit. The increase in consumption expenditure is expected to improve household diet and living conditions. The number of meals per day and responsiveness of access to nutrition are also considered in the analysis.

h) **Employment Generation:** To evaluate the impact of OCSSCO microfinancing scheme on employment, the number of employed people and status of employment generation are considered.

i) **Women Empowerment:** This is to identify how women clients have been empowered by their participation in the program. Information who controls and decides over the business activities within the household was collected.

3.4.2 Outreach and Loan Repayment Performance

The outreach and sustainability of MFI approach is also another prominent tool to assess the impact of microfinancing scheme on poverty alleviation. The assumption is that if outreach has been expanded and institution is sustainable, then the program is judged to have a positive impact as it has widened the financial market. This, in turn, based on the assumption that credit and saving services led to improve household security and economic status of the clients.

Johnson and Rogaly (1997) argued that the repayment rate is the indicator most often used as a measure of the performance of credit scheme. The modeling of loan repayment performance incorporates both the borrower and lender characteristics.

The loan repayment model is based on the assumption that the decision of the clients whether to repay the loan in full or not depends on unobservable utility index which is explained by the independent variables.

Since this utility index is unobservable, there should be some mechanism, which relates unobservable utility index to actual repaying loan in full or not. Therefore, defining a dummy variable, which takes the value 1 when it is observed that the borrower pays in full and 0 otherwise (Teferi, 2000).

Note that the probability of repaying the loan in full or not must lie between 0 and 1 inclusive. This model is estimated using Maximum Likelihood Estimation (MLE). If we apply the Ordinary Least Square (OLS), we may face the possibility of estimated probabilities lying outside the 0-1 ranges. Since the dependent variable in the loan repayment performance equation is dichotomous, or dummy dependent variable, the Logit model is one of the models frequently used to deal with dichotomous variables. Such methodology was used by Mengistu Bediye (1997), Berhanu Lakew (1999) and Teferi Zewdu (2000).

Since the loans provided to the beneficiaries are on a one year maturity period, the loan repayment rate is measured as the ratio of payments made to payments scheduled to be paid at a particular time. The loan repayment rate of recent year (2002) for each client is computed. Accordingly, the loan repayment rate for each beneficiary is calculated as a ratio of total loan paid to total loan supposed to be paid at a particular time. The company retains 10 % from each approved loan size as a group deposits in a saving account, which cannot be withdrawn unless all group members fully repay their principal with interest or quite membership. Borrowers actually receive 90%of the loan size. Therefore, the repayment amount of 100 % is considered as full repayment and below it is taken as not fully paid within the specified loan repayment time. Thus, loan repayment performance takes the value 1 if borrowers repaid the loan in full and 0 otherwise.

Therefore, the Logit model is specified to be used to determine factors that affecting the loan repayment performance based on the following functional relationship.

$$\text{LRP} = F(\text{AYIL}, \text{AYIOL}, \text{VA}, \text{LS}, \text{ED}, \text{ACD}, \text{AG}, \text{SX}, \text{UFR}, \text{TLD}, \text{LSV}, \text{ALRT}, \text{LDR}, \text{U}_1) \text{-----}(1)$$

- Where:
- LRP = Loan repayment performance
 - AYIL = Average yearly income from loanable activities
 - AYIOL = Average yearly income other than loanable activities
 - VA = Value of assets
 - LS = Loan size
 - ED = Education level
 - Illiterate = 1
 - Grade 1 – 6 = 2
 - Grade 7 – 8 = 3
 - Grade 9 – 12 = 4
 - Above grade 12 = 5
 - ACD = Attitude to cost of default
 - ACD = 1 if the borrowers feels high cost of default and 0 Otherwise
 - AG = Age
 - LDR = Loan diversion rate
 - LDR = 1 if a borrower diverts and 0 otherwise
 - SX = Sex
 - SX = 1 if male and 0 otherwise
 - UFR = Use of financial records
 - UFR = 1 if a borrower uses financial records and 0 otherwise
 - TLLD = Timeliness of loan disbursement
 - TLLD = 1 if the disbursement was on time and 0 Otherwise
 - LSV = Loan supervision
 - LSV = 1 if it was sufficient and 0 Otherwise
 - ALRT = Appropriateness of loan repayment time
 - ALRT = 1 if it was on appropriate period and 0 Otherwise

ND = Number of dependents

U_1 =Error term

Therefore, the loan repayment performance of OCSSCO is analyzed based on the following explanatory variables.

a) **Income from Activities Financed by the Loan:** This variable may have a mixed impact on loan repayment. An increase in income from activities financed by the loan is expected to have a positive sign if the increase in income increases loan repayment capacity. On the other hand, it may have a negative impact if the success in income leads to decrease the need for further credit from the institution.

b) **Income from Other Activities:** Availability of other sources of income is expected to have positive contribution for loan repayment performance. On the other hand, however, this income may produce carelessness on the part of beneficiaries in meeting credit obligations since they may not need credit in the future from the same source and in that case it is expected to have negative impact.

c) **Asset Value:** Value of assets of the borrowers is expected to have a positive impact on loan repayment performance having the perception that the assets will be under liability in case of default.

d) **Loan Size:** If a loan amount is just enough for the intended purpose, it will have a positive impact on the productive capacity of the intended activities. But, for large amount of loan size, which is more than the capacity of the project, it is expected to have a negative impact because the excess of loan amount will have a burden.

e) **Education Level:** This variable is expected to have a positive impact. More educated clients are expected to use the loan fund effectively compared to less educated one.

f) **Clients' Attitude to Cost of Default:** Cost of default includes claims against personal wealth, claims against guarantees, social sanctions such as loss of social status, loss of future access to credit and other economic benefits. For those who are at least one of these factors is

very important, the variable will have a positive sign. But, for those beneficiaries who undermine these costs, it will have a negative impact.

g) **Age:** It is usually believed that the increase in age will have business experience. Thus, it is expected to have a positive sign.

h) **Sex:** Many microfinance specialists believe that women are better loan payers than male clients. On the other hand, however, some empirical studies shows the opposite result.

i) **The Use of Financial Records:** If a borrower uses financial records, it will help to follow up his/her loan repayment position, which contributes for loan repayment. Thus, the use of financial records is expected to have a positive sign.

j) **Timeliness of Loan Disbursement:** The timeliness of loan disbursement is important when loans are being used for seasonal activities such as for agriculture. If loan is disbursed on time from the point of view of the borrower, then it is likely that the probability of utilizing the loan proceeds on time. Thus, it is expected to have a positive sign. On the other hand, however, if loan is issued late from the point of view of the borrower, the client could not be able to employ the fund he/she planned to do on time. In this case, the variable may have a negative sign.

k) **Loan Supervision:** Supervision will make borrowers observe their credit obligation. As a result, borrowers are encouraged to settle their duty by improving loan repayment performance. Thus, it is expected to have a positive sign.

l) **Appropriateness of the Loan Repayment Time:** It is expected that this variable will have a positive sign because the borrowers who find this repayment period suitable perform better.

m) **Loan Diversion:** If loan is diverted to non-income generating purposes (such as consumption, clothing), it is likely that the sign of this variable will be negative since it reduces repayment capacity. If, however, the loan is diverted to income generating purposes,

the variable is expected to have a mixed effect. Loan diversion has the character of fungibility, which refers to the interchangeability of the uses of loan to which credit can be put. It may invalidate the target of the institution.

CHAPTER IV: EMPIRICAL ANALYSIS

4.1 Characteristics of Respondents

From the total 216 respondents in the sample branch, 108 clients and 108 non-clients were interviewed for the study. Of the total sample clients of the program, 91 (84.26%) are male and 17 (15.74%) are female. From the total sample non-clients, 77(71.3%) are male and 31 (28.7 %) are female. From the total sample respondents, 168(77.78%) are male and 48(22.22%) are female (see table 4.1).

Table 4.1 Sample Respondents by Sex

Type of Respondent	Sex		Total
	Male	Female	
Clients	91	17	108
Non-clients	77	31	108
Total	168	48	216

Considering the marital statuses of the total sample respondents, 12(5.56%) are single, 186(86.11%) are married, 4(1.85%) are divorced and 14(6.48%) are widowed. Out of the total sample clients 95(87.96%) are married. Out of the total sample non-clients 91(84.26%) are married. This implies that majority of sample respondents are married (See table 4.2).

Table 4.2 Sample Respondents by Marital Status

<u>Marital status</u>	Type of respondents		<u>Total</u>
	Clients	Non-clients	
Single	6	6	12
Married	95	91	186
Divorced	3	1	4
Widowed	4	10	14

Out of the total respondents, the ages of 82 (37.96%) are in the range of 21-30, 69 (31.94%) are in the range of 31-40. This implies that the ages of most respondents lie in the range of age between 21 and 40 (see table 4.3).

Table 4.3 Sample Respondents by Age

Age	Type of respondents				<u>Total</u>
	Clients		Non-clients		
	Male	Female	Male	Female	
15-20	5	1	3	1	10
21-30	31	10	26	15	82
31-40	27	5	29	8	69
41-50	16	0	12	3	31
51-60	11	0	6	2	19
Above 60	1	1	1	2	5

From the total sample respondents, 104 (48.12%) are illiterate, 85 (39.35%) are in the range of grade 1-6 and 27 (12.5%) are in the range of grade 7-12. From the total sample clients, 48

(44.44%) are illiterate, 47 (43.52%) are in the range of grade 1-6, 7(6.48%) are grade 7and 8 and only 6 (5.56%) are in the range of grade 9-12. This implies that most of the sample respondents are illiterate. Out of the total sample non-clients 56 (51.85%) are illiterate, 38(35.19%) are in the range of grade 1-6, 8 (7.4%) are grade 7and 8 and 6 (5.56%) are in the range of grade 9-12 (see table 4.4).

Table 4.4 Sample Respondents by Level of Education

Education level	Type of respondents				Total
	Clients		Non-clients		
	Male	Female	Male	Female	
Illiterate	41	7	38	18	104
Grade 1-6	38	8	31	7	85
Grade 7-8	5	2	4	4	15
Grade 9-12	6	0	4	2	12

Out of the total sample respondents, the number of household size ranges from 1 to 10. The average household sizes of clients and non-clients are 5.4 and 3.8 respectively (see table 4.5)

Table 4.5 Household Size of Respondents

Household size	Type of respondents		Total
	Clients	<u>Non-clients</u>	
1	5	8	13
2	6	23	29
3	9	23	32
4	15	19	34
5	20	13	33
6	19	11	30
7	16	7	23
8	10	3	13
9	7	1	8

10	1	0	1
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The following table shows the number of household dependents. The number of household dependents ranges from 0 to 7. The average numbers of household dependents of clients and non-clients are about 3 and 2 respectively (see table 4.6).

Table 4.6 Household Dependents

Number of dependents	Type of respondents		Total
	Clients	Non-clients	
0	13	32	45
1	18	19	37
2	15	20	35
3	20	20	40
4	16	9	25
5	16	4	20
6	9	4	13
7	1	0	1

It is also observed that microfinance, Iddir, Iqqub, relatives, friends and individual moneylenders are sources of finance for the sample respondents. Since there is no conventional bank branch in the sample woreda, no one has reported conventional bank as his source of finance. From table 4.7, it is observed that Iddir and Iqqub are most dominant sources of finance next to microfinance to the poor. This implies the rural poor have lack of access to formal credit market. Out of the total sample clients only 3 (2.78%) reported Iddir and Iqqub are sources of finance while 51(47.22%) for non-clients (see table 4.7).

Table 4.7 Sources of Finance of Respondents

Sources	Type of respondents		Total
	Clients	Non-clients	
Microfinance (OCSSCO)	108	0	108
Iddir / Iqqub	3	51	54

Individual money lender	0	9	9
Relatives / friends	0	6	6
Conventional bank	0	0	0

4.2 Impacts of the Program at the Household Level

As the objective of the study is to assess the impact of Oromiya Credit and Saving Share Company microfinancing program in the sample branch, the impact of the intervention is observed in association mainly with income, household diet, access to education, responsiveness for medical care, employment opportunities, savings and women empowerment. The findings of the study are stated as follows.

4.2.1 Effects on Income

One of the immediate impacts of having access to credit from the microfinancing program is on income. This induced income may have impact on other outcomes such as household consumption, access to education and medical facilities, etc. Since most of the respondents do not keep records on their business activities, the income figures may not be accurate but the estimate yearly income of the respondents serves for the study. Since the respondents' yearly income may or may not be only from the loanable activities, income from the loanable and non-loanable activities of each respondent was collected. From the total sample clients, 57(52.78%) reported that their yearly income is in the range of 1001-2000 Birr while from the total sample non-clients only 27(25%) reported yearly income in the range of 1001-2000 which shows difference in the level of income between the two groups. It is also observed that 19 (17.6%) of clients and 5 (4.62) of non-clients reported average yearly income of between 2001-3000 Birr (see table 4.8).

Table 4.8 Average Yearly Income of Respondents

Income level (in Birr)	Type of respondents		Total (%)
	Clients (%)	Non-clients (%)	

Below 500	10 (9.26)	27 (25.00)	37 (34.26)
500-1000	19 (17.60)	49 (45.37)	68 (62.96)
1001-2000	57 (52.78)	27 (25.00)	84 (77.78)
2001-3000	19 (17.60)	5 (4.63)	24 (22.22)
3001-4000	2 (1.85)	0 (0)	2 (1.85)
Above 4000	1 (0.93)	0 (0)	1 (0.93)

Table 4.8 also shows the positive contribution of the microfinancing scheme in income generating. If we compare the number of each group whose average yearly income is below 1000 Birr and above of Birr 1000, it is evident that only 29 (26.85%) of clients earned average yearly income of below Birr 1000 but 79(73.15%) of clients earned above Birr 1000. On the other hand, 76(70.37%) of non-clients reported average yearly income of less than Birr 1000, while only 32(29.63%) of non-client reported average yearly income of above Birr 1000. This implies the percentage of clients (73.15%) whose level of income above Birr 1000 is much greater than the percentage of non-clients (29.63 %) whose level of income above Birr 1000. The result also suggests that the average yearly income of clients is 893.5 Birr while 149.3 for non-clients.

Participation in microfinance service has an expectation that leads to increase household income, among others. Thus, the core impact study includes a question about relative changes in their household income status. Based on this question, the responsiveness of the two groups was collected. Out of total clients, 54 (50%) reported the trend that their overall level of income has been increased significantly since their participation in the program while from the total sample non-clients only 4(3.7%) reported significant increase overall level of income for the last two years. 49(45.37%) of the clients and 18(16.67%) of the non-clients reported the trend that their overall level of income has been increased. The percentages whose level of income has at least increased over the last two years are about 95.37% for clients and 20.37% for non-clients. The improvement in overall level of income is much more pronounced in clients than non-clients (see table 4.9).

Table 4.9 The Trend of Household Income

Trend	Type of respondents		Total (%)
	Clients (%)	Non-clients (%)	
Increased significantly	54 (50.00)	4 (3.70)	58 (26.85)
Increased	49 (45.37)	18 (16.67)	67 (31.02)
Remained the same	5 (4.63)	64 (59.26)	69 (31.94)
Decreased	0 (0)	9 (8.33)	9 (4.17)
Decreased significantly	0 (0)	13 (12.04)	13 (6.02)

From the respondents of sample clients who reported the increase in their level of income, 103 (95.37%) reported that access to working capital from microfinance credit services helps them to buy inputs, able to purchase business assets, expand existing business for agricultural activities and petty trade. On the other hand, from the sample of non-clients who reported the increment in their level of income, 17 (15.74%) of them reported that the causes for their income improvement are good agricultural season and petty trade from their own working capital.

Out of the sample clients who reported that the trend remained the same, crops failure, illness or death of the family were reported as main problems for their business activities. However, lack of credit, crop failure, unemployment, illness or deaths of the family were reported as the major reasons for the decrement of their level of income of non-clients. Out of total non-clients, 62(57.4%) identified that lack of access to credit was the most significant reason for the problems in their business activities.

Therefore, the responsiveness achieved in relating with income from program participants shows a clear indication that microfinance credit has enabled the clients to generate disposable income that could be spent on better facilities which could improve the living standard of the households concerned.

4.2.2 Effects on Household Diet

Having access to microfinance credit has also impact on household nutritional status. This indicator is simply to capture the direction of a change in type and quality of household diet.

Since the rural poor may not have records on their daily, monthly or yearly expenditure, type of meals or quality of meals, information on their average yearly expenditure on consumption, type of meals and their responsiveness in nutritional status and trends of consumption expenditure were collected. According to AIMS (2000), the two promising indicators proposed for food security at household level are numbers of eating meals per day and number of different types of food consumed. Based on this framework, the results of the collected data are represented in table 4.10.

From the total respondents, only 5(4.63%) of clients and 37(34.26%)of non-clients reported that they do have only breakfast and formal evening meal. Only 3(2.78%) of clients have only lunch and evening meal. 95(87.96%) of clients and 56(51.85%) of non-clients reported that they could get meals three times a day. The findings show that program participants have got more chance of getting meals three times a day than those who have not participated in the program (see table 4.10)

Table 4.10 Type of Meals of Respondents

Types	Type of respondents		Total (%)
	Clients (%)	Non-clients (%)	
Breakfast & evening meal	5 (4.63)	37 (34.26)	42 (19.44)
Lunch & evening meal	3 (2.78)	15 (13.89)	18 (8.33)
Breakfast, lunch & evening meal	95 (87.96)	56 (51.85)	151(69.90)
Breakfast, between breakfast and midday, midday, between midday & evening meal, and evening meal	5 (4.63)	0 (0)	5 (2.31)

According to Teferi Zewdu (2000), the immediate impact of microfinance program is on income and this induced income is expected to have an impact on another outcome like increase in consumption expenditure that leads to better household diet and living condition. Thus, the average yearly consumption expenditure of each respondent was collected. This is also used to compare the consumption expenditure of clients and non-clients on household nutrition. However, the respondents could not estimate the expenses and it was not reasonable. As a result, consumption expenditure is dropped from the analysis. Instead, the trend of consumption expenditure is used (see table 4.11).

Table 4.11 Trends of Consumption Expenditure of Respondents

Consumption expenditure (Birr)	Type of respondents		Total (%)
	Clients (%)	Non-clients (%)	
Increased	92 (85.19)	50 (46.30)	152(70.37)
Non-increased	16 (14.81)	58 (57.70)	74 (29.63)

Information on the trends of household diet and responsiveness of consumption expenditure were also collected. Concerning consumption expenditure, it is assumed that the improvement in consumption expenditure leads to better household diet and living condition. This concept tells us whether the status of household diet has been improved or not for the last two years. It is obvious that microfinance intervention is expected to support program participants in ensuring food security, which is the prime concern of all poor households.

The findings of this study in relation to this variable indicated that 92 (85.19%) of sample clients and 50(46.3%) of sample non-clients reported the trend that their household diet and consumption expenditure have been improved over the last twelve months. Only 16(14.81%) of clients and 58(53.7%) of non-clients reported that their type and quality of diet as well as their consumption expenditure have not been improved over the last twelve months.

This result indicates that more clients have enjoyed diet improvement than non-clients. Program participants have more chance of improving their diet in comparison to non-participants. Ability to produce and buy more cereals and staples are the major reasons for the improvement of their nutritional status (see table 4.12).

Table 4.12 Trends of Household Diet and Consumption Expenditure

Trends	Type of respondents		Total (%)
	Clients (%)	Non-clients (%)	
Improved	92 (85.19)	50 (46.30)	142 (65.74)
Non-improved	16 (14.81)	58 (53.70)	74 (34.26)

4.2.3 Effects on Educational Facilities

The other variable that is considered in the study is access to educational facilities. Information was collected on potential school-age children, children currently attending school and average yearly educational expenditure. Enrollment of school-age children is also considered to assess the impact of credit scheme in improving access to educational facilities. From the reported 282 potential school-age children of clients, 183(64.89%) are actually enrolled and attending their school this year. On the other hand, from the reported 157 potential school-age children of non-clients, 102(64.97%) are actually enrolled and attending their school. This suggests that enrollment of school-age children who are currently attending school of the two groups does not show difference. The major reasons for not taking school-age children to school include needed them for help in business activities and unable to cover educational expenditures. In addition, too far school, disabled and girls were also reported as reasons for not attending school (see table 4.13).

Table 4.13 Enrollment of School-age Children

Number of school-age children	Enrollment			
	Potential		Actual	
	Clients	Non-clients	Clients	Non-clients

1	7	15	1	10
2	20	23	18	18
3	45	54	34	32
4	100	28	60	18
5	45	25	35	22
6	30	12	20	2
7	35	0	15	0
Total	282	157	183(64.89%)	102(64.97%)

4.2.4 Effects on Access to Medical Facilities

Respondents were asked to recall their monthly average medical expenditures and responsiveness to medical facilities. However, medical expenditures are based on the number of members of households who are ill or injured. Since a number of members of households who are ill or injured within a given year might be different, the responsiveness of respondents in financing to get medical facilities in case of demand for medical care is considered in the study.

The result shows that 101 (93.52%) of sample clients and only 22(20.37%) of sample non-clients reported the trend that their responsiveness toward access to medical facilities has been improved for the last two years. However, only 7 (6.48%) of sample clients and 86 (79.63%) of sample non-clients reported the trend that their ability to get access to medical facilities has not been improved over the last two years. This result clearly shows that program participants have improved their ability to respond to the demand for medical care. The study finds difference in responsiveness of demand for medical care between the two groups. Therefore, we can conclude that program participants have been benefited from the microfinancing scheme (see table 4.14 and table 4.15).

Table 4.14 Medical Responsiveness of Respondents

Response	Type of respondents		Total (%)
	Clients (%)	Non-clients (%)	
Improved	101(93.52)	22(20.37)	123(56.94)

)
Not-improved	7(6.48)	86(79.63)	93(43.06)

Table 4.15 shows that out of 81 (75%) client households who reported whose members were ill or injured during the last twelve months, 76 (93%) clients have taken their members who were ill or injured for medical treatment. Only 5 (6%) clients reported the inability to take their members who were ill or injured for medical care. On the other hand, out of 67 (62%) non-client households who reported whose their members were ill or injured, only 37 (55%) non-clients have taken their members who were ill or injured for medical care during the last twelve months. But 30 (45%) non-clients reported the inability to take their members who were ill or injured members for treatment. If we compare the results, about 93% of clients and 55% of non-clients have taken their members for medical treatment, which shows difference between the two groups.

Table 4.15 Ability of Respondents in case of Demand for Health Care

Trends	Type of respondents		Total (%)
	Clients (%)	Non-clients (%)	
Number of households whose members were ill or injured during the last twelve months.	81(75.00)	67(62.04)	148(68.52)
Number of households who have taken their member (who were ill or injured) for medical treatment during the last twelve months.	76(93.83)	37(55.22)	113(76.35)
Number of household who have not taken their member (who were ill or injured) for medical treatment during the last twelve months.	5(6.17)	30(44.78)	35(23.65)

4.2.5 Effects on Employment

The immediate positive impact of microfinancing scheme is on employment generation. Type of business activities and trends of employment opportunities were collected. The two basic types of business activities are farming and petty trade. Others include livestock production, local food and drink preparation. Since the respondents are rural poor, agriculture is the basic type of business activities for most of the respondents. However, the number of sample respondents who have been engaged in petty trade, retail trade and livestock fattening is much greater in clients than non-clients. Out of total sample respondents, 84(77.78%) of clients and only 14 (12.96 %) of non-clients reported the trend that their employment opportunities have been improved for the last twelve months. On the other hand, only 24(22.22%) of clients and 94(87.04%) of non-clients showed no improvement in job opportunities. This suggests that microfinancing services to the rural poor have positive effects on employment generation (See table 4.16).

Table 4.16 Trends of Employment Generation

Trends	Type of respondents		Total (%)
	Clients (%)	Non-clients (%)	
Improved	84(77.78)	14(12.96)	98(45.37)
Not-improved	24(22.22)	94(87.04)	118(54.63)

4.2.6 Effects on Savings

There are two types of savings: compulsory and voluntary. Compulsory saving is normally enforced and starts simultaneously with the loan that is approved for individuals who are program participants. Compulsory saving includes compulsory individual saving, compulsory group saving and compulsory center saving. These types of savings are used as collateral. Compulsory individual saving ranges from Birr 3 to 6 and compulsory center saving ranges from Birr 2 to 4 per month. Compulsory group saving is a saving of 10% from the loan size.

On the other hand, voluntary saving is an individual saving that depends on the willingness of the individual including clients and non- clients to save and withdraw at any time when the need arises. Since establishment of OCSSCO in Sasiga branch, the annual savings progression is summarized as follows (see table 4.17).

Table 4.17 Saving Mobilization in Sasiga Branch of OCSSCO (Birr)

Year	Type of savings				Total
	Compulsory			Voluntary	
	Compulsory Individual saving	Compulsory group saving	Compulsory center saving	Voluntary individual saving	
1997/98	3983	56210	3149	9854	73196
1998/99	15169	20317	9216	19046	63748
1999/00	10889	31730	6455	21302	70376
2000/01	18347	73635	10105	34190	136277
2001/02	30302	97208	18809	84036	230355

Source: Sasiga Branch, Sasiga.2003

Out of the total sample respondents, the larger portions of clients have saving account in comparison with non-clients for the last two years. The voluntary savings are in the form of saving under OCSSCO, Iqqub, Iddir and Mahaber. From table 4.18, it is observed that 93 (86.11%) of clients have voluntary saving account under the OCSSCO microfinancing scheme. However, no one has reported as he/she has voluntary saving account under the OCSSCO microfinancing scheme. But it is observed that some of non-clients who have not been taken under sample respondents have saving account under OCSSCO microfinancing scheme in the sample branch (see table 4.19).

Table 4.18 Type of Voluntary Savings of Respondents

Type	Type of respondents		Total
	Clients	Non-clients	

Savings under OCSSCO	93	0	93
Iqqub	12	20	32
Iddir	11	65	77
Mahaber	0	4	4

Therefore, from the above two tables we can observe that the sample respondents have saving accounts. The reasons for their saving include loan repayment, to earn profit, to withdraw in case of urgent needs, to spend on education and medical care expenses and to improve household food security. The result shows that program participants have developed saving habits. The difference of savings between the two groups suggests that the program has brought and develops the habit of savings among the clients.

4.2.7 Effects on Women Empowerment

This is to identify on how women clients have been empowered by their participation in the program. Participation in microfinance program services expected to lead control over resources on the part of women clients. Information who control and decides over the business activities within the household was collected. Out of total sample respondents, 22(20.37%) of clients and 23(21.3%) of non-clients reported that there is a practice of only husband making decisions in household. This indicates men domination in making decisions. On the other hand, 87(78.7%) of clients and 78(72.22%) of non-clients reported that both husband and wife make decision on their business activities. One of the clients and seven of the non-clients reported that only wife is the decision maker in the household. Therefore, it is difficult to suggest the impact of credit and saving microfoancing scheme on women empowerment since the result does not show much difference between the two groups (see table 4.19).

Table 4.19 Trends of Empowerment

Decision maker	Type of respondent		Total (%)
	Clients (%)	Non-clients (%)	

Husband only	22(20.37)	23(21.30)	45(20.83)
Husband and wife	85(78.70)	78(72.22)	163(75.46)
Wife only	1(0.93)	7(6.48)	8(3.71)

4.2.8. Estimates of the Logit Model

Assessing impact at the participant level requires adjustments to control for differences between frequent borrowers who are taken as clients and those who are looking for credit who are taken as non-clients. The impact of the program is assessed based on the variables indicated above. The variables used in regression are respondents who are clients and non-clients, amount of loan, and voluntary individual savings.

The dependent variable is variable which takes a value of 1 or 0 depending on whether the respondents income improved or not. The Logit model specifies the functional relationship between the probabilities of respondents being improved in program participants and indicated various quantitative and qualitative explanatory variables of each group. Thus, the impact is analyzed based on the following results of the model through the coefficients of each variable. The list and description of the variables are given in table 4.20. Estimates of the Logit model of respondents are also described in table 4.21.

Table 4.20 List and Description of Variables of Impact at Household Level

Variables	Description
Y	Average yearly per capita income 1 = improved 0 = not improved
RES	Respondents

	1=clients (frequent borrowers) 0= non-clients
LS	Loan size
VIS	Voluntary individual savings

As discussed using descriptive analysis else were above, the econometric estimate also shows different probability of changes between clients and non-clients. Estimate of the Logit model of the total respondents is also described in table 4.21 as follows.

Table 4.21 Estimates of the Logit Model of the Total Respondents

Variables	Coefficient	Coefficient/standard error (t-value)
Constant	-1.6094	-6.2332
RES	4.0147	3.0925
VIS	0.0031	1.1923
LS	0.0009	0.6428

Pearson Goodness of fit $\chi^2 = 228.998$

DF = 208

P = 0.000

From the above table, it is observed that the probability of the improvement of income shows direct relationship with the explanatory variables. All the coefficients show the expected sign. However, the extent to which these variables relate with the dependent variable is different. The extent of the relationship is explained as follows.

Average yearly per capita income (Y) is positively related with program participant implying that the probability of the improvement in income increases with the increase in program participation. The coefficient shows the expected sign, which is statistically significant at 1%

significant level.. It implies that the program participants (frequent borrowers) show higher improvement of income than non-clients.

The income status of respondents also shows positive relationship with individual voluntary savings.. The coefficient shows the expected sign, which is also statistically significant at 1% significant level. The probability of the improvement in income increases with the increase in individual voluntary saving. It can be said that the program introduces the saving habits to the poor. The probability of the improvement in income also shows direct relationship with borrowing. The improvement in income increases with the increase in loan size.

4.3 Outreach and Sustainability of the Sample Branch

The Outreach and sustainability of microfinancing approach is also another prominent tool to assess the impact of microfinancing scheme on poverty reduction. It is assumed to have a positive contribution to the economic status of program participants. Information in relating the company’s outreach and the performance of loan repayment from the sample branch was collected. The sample clients under examination are 108 which amount to about 12% of the total client population of the year 2001/02. The result shows the trend that the number of clients and amount disbursed have been increased since 1998/99. The repayment rate has been 100% for the year 1998/99, 1999/00, 2000/01 and 2001/02. The loan repayment rate for the year 2002/03 was not matured when the study conducted. However, because of weak management and training of clients, arrears have been observed for the year 1997/98 (See table 4.22).

Table 4.22 Sample Branch’s Outreach and Repayment Rate

Year	Numbe	Amount	Amount	Repayment
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	r of Clients	Disbursed (Birr)	Collected (Birr)	Rate (%)
1997/9 8	519	562,100	423,800	75.4
1997/9 8	277	207,477	207,477	100
1999/0 0	362	317,100	317,100	100
2000/0 1	718	736,350	736,350	100
2001/0 2	888	884,280	884,280	100

Source: OCSSCO, 2003.

4.3.1 Determinants of Loan Repayment Performance

Since the loans provided to the borrowers are in a maximum of one-year maturity period, the loan repayment performance is measured as the ratio of repayments made to repayments scheduled at a particular time. The total repayment performance and repayment performance of each client are computed. Except for the first year of company's establishment in the sample branch, the result shows 100% of repayment rate. Since the descriptive analysis shows 100 % repayment performance, it is not possible to produce regression using Logit model to identify factors that determine loan repayment performance. Thus, it is necessary to identify factors that help to repay the loan within a given period of time. The major factors are identified and explained using descriptive analysis as follows.

Timeliness of loan disbursement (TLD) has positive contribution to loan repayment performance. From the descriptive analysis, the result also shows that 105 (97 %) of sample clients who reported appropriate time of loan issue showed 100% of loan repayment within a given period of time. This indicates that loan is issued on time from the point of view of the borrower. It is likely that the borrower is able to employ the fund for the intended business activities; and then the borrower can repay the loan on time.

Use of financial records (UFR) was expected to show positive impact on loan repayment performance. However, the descriptive result shows that 74% of sample clients who don't have financial records have diverted the loan but they have repaid 100% of their loan in full during the maturity date. This implies that use of financial records has no impact on loan repayment performance. Even though the borrowers have no financial records for loanable business activities, they use the loan properly for income generating activities based on their past experience of knowing about the business.

Loan supervision (LSV) has also a positive relationship with loan repayment performance. About 99% of sample clients who reported sufficient loan supervision have paid 100% of their loan within a given period of time. This implies that loan supervision has a positive contribution to loan utilization and loan repayment.

Average yearly income from loanable activities (AYIL) and average yearly income from other than loanable activities (AYIOL) have also direct relationship with loan repayment performance.

Education level (ED) was expected to have positive relation with loan repayment performance. It implies that higher educated borrowers are expected to show a higher loan repayment rate than relatively less educated borrowers. However, from the result of the study, whether the borrowers are educated or not, all borrowers have repaid their loan in full within a given period of time. Thus, it can be concluded that level of education has no impact on loan repayment performance.

Value of assets (VA) has direct relationship with loan repayment performance. 75 (69.4%) of sample clients believed the claims against personal wealth in case of default. This implies the perception that the assets will be under liability in case of default. Thus, we can conclude that borrower's asset has positive impact on loan repayment performance.

Attitude to cost of default (ACD) is positively related with loan repayment. Because of the believe of the claims against personal wealth (about 69%), social sanctions (about 45%), penalty (about 48%), and loss of future access to credit (about 48%), 107 of sample clients reported the trend that they do have believe in high cost of default. This also implies that

having attitude of high cost of default from the borrowers side helps the company to collect the loan issued within maturity date, which also helps the company to be sustainable.

Appropriateness of loan repayment time (ALRT) has also direct relationship with loan repayment performance. 102 (94.4%) of sample clients reported the appropriate time of loan repayment. This implies that loan collection from the borrowers during their harvesting time and good market for their business has greater positive impact on loan repayment performance.

Since loan has a character of fungibles, loan diversion rate (LDR) was expected to have mixed impacts on loan repayment performance. It is expected to show positive impact if the loan is diverted to more income generating business activities. On the other hand, it is expected to have negative impact if a borrower diverts the loan to non-income generating activities. From the study, it is observed that 40 (37.04) of sample clients reported the trend that they have used some of the loan for non-intended purposes, which include diversion of loan to more income generating business purposes (about 59%) and to non-income generating activities (about 41%) such as household consumption, service expenditures, etc. However, the study describes that all borrowers (diverters and non-diverters) have repaid their loan on time. Therefore, it is difficult to say loan diverters have negative impact on loan repayment performance.

Loan size (LS) was expected to have inverse relation with loan repayment performance based on the assumption that the higher the loan sizes the greater loan diversion to non-income generating activities. However, 72 (about 67%) of sample clients reported insufficiency of loan size. Therefore, it can be said that balanced loan size with the intended program of the borrowers has positive impact on loan utilization and loan repayment performance.

Age of clients (AG) was expected to have a positive impact on loan repayment performance. The expected positive sign was based on the assumption that adults use loan properly than others. But, the study shows that all borrowers whose age ranges between 15 and 70 inclusive reported full loan repayments within scheduled time. Thus, it implies that age consideration has no impact on loan repayment performance.

Considering Sex of clients (SX), it was believed that women pay their loan more than men within maturity date. However, the study describes that out of the total sample clients 91 (84.26%) male and 17 (15.74%) female), all of them reported full repayment of their loan within a given period of time. This also implies that gender consideration has no impact on loan repayment. This also suggests the trend that whether a borrower is husband or wife they are guaranteed to each other in loan utilization. Both of them have also equal accountability to repay the loan.

4. 4 Perceptions of Sample Clients

Perceptions of clients with the OCSSCO's microfinancing scheme in the sample branch were also collected to show the direction of change about the program. The perceptions are in relating with benefits they received from the program, their satisfaction and dissatisfaction about the program and recommendations.

4.4.1 Major Benefits of Clients from the Program

Mainly, the perceptions of clients regarding the benefits they received from the program were collected on house improvements, household diet, access to education, access to medical care, job opportunities and savings habit.

Sixty-four (59.26%) of the clients reported the trend that they improved their type of house with its furniture. 100% of them put the reason for the improvement as it was profit earned from the loan. 92 (85.19%) of clients reported the improvements of their household diet. They benefited from the program. 69(63.89%) and 76(70.37%) of clients also reported that they able to get access to education for their children and access to medical care when the needs raised. 84 (77.78%) of clients reported the trend of improvement of job opportunities for their household. It is also observed that 93(86.11%) of sample clients have voluntary saving accounts.

They have gained the habit of saving which helps them in case of loan repayment, to earn profit, urgent needs, education expenditure, medical expenditure, to improve household furniture, etc. The clients also reported that they have been benefited from the program such as advises in planning, production and trading (see table 4.23).

Table 4.23 Major Benefits of Clients

Benefits	Number of clients (%)
Improvement in type of house	64 (59)
Improvement in household diet	92 (85)
Able to get access to education	56 (52)
Able to get access to medical care	76 (70)
Improvement in job opportunity	84 (78)
Improvement in saving habit	83 (86)

4.4.2 Client Satisfaction/Dissatisfaction

Satisfaction/dissatisfaction of clients about the program was collected using open questions. Table 4.24 summarizes the responsiveness of clients regarding their satisfaction and dissatisfaction with the program. Majority of the clients appreciated appropriate time of loan disbursement, appropriate time of loan repayment, appropriate interest rate, sufficient advice and supervision. However, a few complained the existing interest rate. Majority of the clients complained the loan size and the loan term of one year.

From table 4.24, it is observed that most of the clients (about 97%) appreciated appropriate time of loan disbursement. About 94% of the sample clients reported that the timeliness of loan repayment is appropriate. However, 8(7.4%) of the sample clients reported that timeliness of loan repayment was not appropriate. The inappropriate loan repayment time may lead the borrowers not to repay the loan within a given period of time. Few respondents

suggested that the program has not considered loan repayment time while failure of crops and marketing.

About 86% of sample clients reported that the interest rate on loan was appropriate but the remaining clients (14 %) argued that it was high. Arguing high interest rate may discourage clients from continuing with the program. Only 36(33.3%) of sample clients responded sufficient loan size but 72(66.6%) of sample clients complained the sufficiency of loan size. Only 28(25.9%) of clients argued sufficient loan length of one year but majority of the sample clients, 80(about 74%), reported that loan length of maximum one year is not sufficient. About 99% of sample clients reported the trend that advising and supervision of staff members were appreciated. This indicates that the borrowers may not divert the loan to non-income generating activities. This helps borrowers to earn profit and helps the company to make sustainable.

Clients' attitudes to continue with the program were also collected .In this regard, 96(about 89%) of sample clients gave their opinion to continue in the program. However, 12(about11%) reported not to continue with the program. Insufficient loan size, high interest rate, delay of loan issue, shortage of loan length, conflict among members, obtaining enough capital and decided to close the business were reported as the major reasons for the opinion of few clients not to continue with the program (see table 4.24).

Table 4.24 Clients' Responses with the Program

Activities	Responses	
	Yes (%)	No (%)
Appropriate time of loan disbursement	105 (97.22)	3(2.78)
Appropriate time of loan repayment	102 (94.44)	8(5.56)
Appropriate interest rate	93 (86.11)	15(13.89)
Sufficient loan size	36 (33.33)	72(66.67)
Appropriate loan length	28 (25.93)	80(74.07)
Sufficient advice and supervision	107 (99.07)	1(0.93)
Attitude to continue with the program	96 (89.00)	12(11.00)

4.4.3 Client Recommendations

Based on their observations, sample clients have also provided their recommendations. Looking at the responses of sample clients, the major recommendations forwarded are that which calls for increasing loan size and extending loan length.

Seventy-two (66.67%) of the sample clients recommended increasing loan size. 80 (74.07%) of sample client suggested the extension of a maximum of loan repayment time to more than one year. 15(13.39%) and 10(9.26%) of sample clients supported interest rate reduction and center size reduction respectively. In addition, few respondents recommended extension of sub-branch and giving loan to individuals based on their property which one used as collateral (see table 4.25).

Table 4.25 Client Recommendations

Activities	Number of clients (%)
Increasing loan size	72 (66.67)
Extension of repayment period	80 (74.07)
Interest rate reduction	15 (13.89)
Center size reduction	10 (9.26)
Individual loan	8 (7.40)

4.5 The Major Challenges of OCSSCO and its Program

OCSSCO is currently operational only in 70 out of 190 districts in the region. This indicates that the OCSSCO is at its infant stage requiring expansion of its activities to reach its poor people. OCSSCO, like other MFIs in Ethiopia, faces the challenges of expanding its operation in order to assure financial services to large number of the poor. It has been encountered with the following major problems.

A) Lack of sufficient loanable fund: OCSSCO lacks financial resources and urges the attention of donors and other financial resources. This is difficult for OCSSCO to fulfill the

loan demand of the entire Oromiya region. It is also difficult to meet its loan capital requirements from local commercial sources and savings mobilized, and cover all costs from interest charges.

B) Lack of investment capital: This is a problem related with building capacity. These include lack of funds to build offices at branch levels, lack of staff training, lack of built-in computerized management information system and lack of means of transport.

C) Poor infrastructure: OCSSCO is focusing on the delivery of financial services to the poor households and areas where there hardly exists means of transportation, telecommunication, postal services and formal banks. Very poor road network and transport facilities have limited the markets. The absence of such infrastructure makes difficult the delivery of financial services and monitoring or follow-up clients in loan utilization in rural areas.

D) Drought and natural disasters: The frequent drought in the region affects loan repayment. Actually, the registered arrears of OCSSCO are mainly the result of the drought.

Although the OCSSCO has the objective to reach the rural poor, the regulatory framework and limited research affect financial product development in various ways. The major problems are described as follows.

1) **Lending methodology:** The lending methodology is group based and peer pressure. The group-based criteria affect the development of new financial products, which need individual instead of group collateral. Considering center size, some people who are looking for credit from the program have faced problems of the center size criteria. The criterion needs 8 to 10 groups or 32 to 60 members. Since the rural poor are sparsely settled over the area, it is difficult to form a center where the members may not trust and follow-up on each other.

2) **Insufficient loan size:** The average loan size of 1000 Birr loan ceiling hinders the development of financial products with the loan size needed above the ceiling. The

insufficiency of loan size makes the borrowers to divert the loan from more income generating activities.

3) High lending interest rate: The lending interest rate which has been fixed at

12.5% has been unattractive. Some of the clients argued the interest rate as it is high. Arguing high interest rate discourages the program participants from continuing with the program.

4) Loan term: The loan term as per the regulation is a maximum of one year. This affects the business activities, which need more than one year.

5) Absence of market research and weak diversification: The absence of market research and skill for financial product development has undermined the role of marketing. Weak diversification of loan is also considered as one problem in diversifying business activities. OCSSCO'S loan (about 78 %) goes to agricultural activities, which are based on weather conditions, which cause crop failure and yield reduction.

CHAPTER V: SUMMARY, CONCLUSION AND POLICY IMPLICTAIONS

5.1 Summary

Targeting credit to the poor is one of the various instruments for poverty reduction. Microfinancing is being practiced all over the world as one of the major strategies being used to reduce poverty through the delivery of financial services such as credit, saving, insurance, etc. Currently, provision of credit and saving mobilization is one of the major strategies to alleviate poverty in Ethiopia. To meet this end, OCSSCO was established in 1997 in Oromiya Regional National State aiming at poverty reduction through provision of credit and saving mobilization to the poor. The objective of this study is to examine the impact of OCSSCO's program whether it has met its objectives or not. The impact assessment was conducted in Sasiga branch of OCSSCO in Eastern Wollega Zone of Oromiya Regional National State.

The branch is situated at a distance of about 45 K.M. from Nekemte, which is the capital city of the Zone. The branch is operating in rural areas, which are one of the most remote woredas that have no infrastructure facilities, communications, etc. The sample respondents include clients who are frequent borrowers from the program and non-clients who are looking for the credit from the program. In order to select the sample respondents from the two groups stratified and systematic simple random sampling methods have been used. The questionnaire includes household characteristics, socio-economic conditions, perception of respondents about the program and their recommendations. The assessments were conducted using two approaches: Impacts at household level which are mainly associated with the changes in living condition of the clients and company's outreach and sustainability. Impact assessment at household level used two groups for comparison of the changes using non-clients as control group. The analysis of the assessment at the household level is based on the following variables: income, household diet, access to education and medical care, employment generation, savings and women empowerment.

Descriptive analysis and dichotomous binary model were used to analyze the impacts of the services and identify factors influencing loan repayment performance. Since the objective of the study is to find out whether the delivery of financial services has made changes on economic statuses of the poor, the study found the following results and conclusion.

5.2 Conclusion

This study is mainly aimed at examining the financial intervention of the program by focusing on the situation of stated variables of clients and non-clients at household level. It tries to examine the impact of the program on socio- economic activities of the poor using non-clients as control group, which is used in comparison of the changes of the living standard of the two groups.

The study found out that program intervention leads to change that is different from that would have happened without the intervention. The program increases the probability of improvement in economic status of the clients. The changes more likely occur with program participation than without program participation. The study indicates about 95% of sample clients reported that their live conditions have been improved because of program participation while only 20% of sample non-clients reported the trend that their living conditions have been improved because of good agricultural season and petty trade using their own income for the last two years.

Microfinance has enabled the clients to generate income that could be spent on better facilities, which could improve the living standard of clients. Clients have got more chance of getting meals per day than non-clients. The result indicates that more clients have enjoyed diet improvement than non-clients. Clients have got more chance of improving their diet in comparison to non-clients. Considering school-age children and actual enrollment, the result does not show difference between the two groups. The program has improved ability of clients to respond the demand for medical care. The study found difference in responsiveness of demand for medical care between the two groups. Microfinance program improves job opportunities. It creates and expands business activities.

The program has brought and develops the habit of savings among its clients. It extends the choices of people who are looking for saving services. Microfinance program was expected to empower women clients over business activities of household. However, it is difficult to suggest the impact on women empowerment since the result does not show much difference between the two groups.

OCSSCO has now expanded its operations throughout the region in 70 branches of 70 woredas. Considering outreach and sustainability of the company in sample branch, the result indicates the trend that the numbers of clients and amount disbursed have been increased. About 100% of loan repayment within a given maturity date has been observed for the last four years. Loan issue on time, supervision, income, asset, having high attitude to cost of default and loan repayment time are the most factors that help loan repayment within a given period of time. This implies the fact that the intervention is judged to have a positive impact as it has created financial market to the poor and the company itself to be sustainable. The outreach and sustainability of the company have been enhanced. The interventions showed beneficial impacts to the clients. It has improved the financial markets by reducing the extent

of credit market imperfection that is resolved with enhanced availability of credit and savings habit. The institutional impact extends the choices of people looking for credit and saving services.

The group-based credit delivery system has also created opportunity for clients to come together, discuss their problems and exchange ideas about their roles. It gives the program participants a chance to make contact and to learn from experiences of each other. The program makes the clients to understand each other's need and problems very closely. The company is engaged in not only providing credit but also in mobilizing saving from any interested individuals. It is also observed that voluntary individual savings have been increasing overtime. About 86% of sample clients have voluntary saving accounts, which ranges from Birr 10 to Birr 730. This also implies the contribution of the program in training and giving advice in improving saving habits among the program participants. The company has been directing its efforts towards poverty reduction and has showed success in terms of advice and supervision of clients in loan utilization.

5.3 Policy Implications

The policy implication of the study is straight forward. It is clear that OCSSCO is contributing to improve the living standard of the poor. The result indicates the trend that the program improves their live conditions implying microfinance is becoming a tool for poverty reduction. It implies that program participants have been benefited in improving their basic needs including improving in type of house, employment generation and savings. As stated in the study, the services of the program are found to be encouraging with the needs of the poor. It is expected to have positive contribution to clients in relation to income, nutrition, access to education and medical care, employment generation, savings and resource empowerment. Therefore, strengthening the existing company in the region would be appropriate economic policy.

Registered clients, number of staffs, number of offices, amount disbursed, savings mobilized and sustainability are considered as some of performance indicators of the program. In spite of the improvement in these issues, a number of respondents who are non-clients are still looking for the program services. It indicates that the OCSSCO is at its infant stage to meet the needs of the poor. Shortage of loanable fund is considered as one of the obstacles to reach large number of people. Therefore, the company has to work hard to reach large number of poor people over the long term through: (i) mobilizing savings from the public having clear and accountable ownership structure and governance and make adjustments with inflation (ii) appropriate institutional organization and

excellent management (iii) interest rate that enables profitability (iv) leverage equity to access capital market with regional government, NGOs, and individuals and (v) looking for donor agents.

Savings have been mobilized from clients and non-clients. However, saving mobilized from non-clients is too weak or unsatisfactory. Therefore, the company has to work hard to promote savings habit. Savings can be mobilized through offering attractive returns take small deposits, doorstep services, offer discipline, etc. In such away that company can reach large numbers of poor people who are looking for credit.

Considering lending methodology, the center size criteria needs 8 to 10 groups or 32 to 60 members. Since the rural poor are sparsely settled over the region, it is difficult to form a center on their self-initiation. Members may not trust on each other. Therefore, the company has to look for this issue and reduce center size based on the distribution of the rural poor in the region.

Since large amount of loan goes to agricultural activities, which are based on weather conditions, the company has to look for the diversification of business activities. Households relying on agriculture are likely to reduce the effects of seasonality of agriculture by diversifying in to rural non-farm activities that can be undertaken at home without high transactions costs.

Level of education was expected to have positive relationship with loan repayment performance indicating that more educated client has better loan repayment performance than illiterate i.e. the higher educated borrowers the higher the probability of repaying loan in full within maturity date. However, all clients whether they are educated or not have paid their loan in full. It is also observed that most of the clients who do not use financial records have paid their loan on time. Therefore, considering level of education as lending strategy may not be a fair and absolute decision since most of the clients are illiterate while they are the target group. The company should be accompanying packages to give training the poor on their business activities including the importance of credit, loan utilization, market situation and savings mobilization. These help the clients in proper use of loan for their intended purposes which could reduce diversion of loan for non-income generating activities and help the company in repayment performance which makes the company sustainable.

Size of loan has no impact on loan repayment performance. It was expected that the higher the loan sizes the lower the probability of loan repaid. However, the descriptive analysis indicates that though different size of loan to different clients, all have paid their loan in full in time. Besides, about 74% of sample clients, who have paid their loan in full, recommended extension of loan size. Therefore, amount of loan provided to clients should be based to cover the cost of their intended activities.

Loan disbursement time shows positive impact on loan repayment performance. Since the loan is time and purpose sensitive, it contributed to the performance. Therefore, the company should provide the loan on time and has to ignore loan issue if late loan application is applied. Since most of the business activities of clients are time sensitive, loan issue at needed time reduces diversion of loan from intended purposes and helps the borrowers to use the loan properly for their intended purposes.

It is observed that some of the sample clients diverted their loan to non-intended non-income generating activities. Therefore, adequate advising and supervision are required for the clients. Credit to the poor without collateral must follow community participatory to follow-up each other in loan utilization. Understanding client use of financial services is important in market expansion and product development. Avoid failure to understand the local culture, practices, systems, processes and client perspectives are key to understanding the nature of risk, responses to shocks and reduce vulnerability.

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APPENDIX 1 SURVEY QUESTIONAIRE

ADDIS ABABA UNIVERSITY SCHOOL OF GRADUATE STUDIES

Questionnaire for the survey on “ The impact of Microfinancing on Poverty Reduction: The case of Oromiya Credit & Saving Share Company (OCSSCO) in Eastern Wollega Zone of Oromiya National Regional State, Ethiopia”.

NAME OF INTERVIEWER: _____ SIGNATURE: _____
TYPE OF RESPONDENT: _____ KEBELE: _____

1. PERSONAL & HOUSEHOLD DATA

1.1 Name: _____ Age: _____ Sex: M _____ F _____

1.2 Marital Status: Single _____ Married _____ Divorced _____ Widowed _____

1.3 Household size: M _____ F _____ Total _____ Household head: M _____ F _____

No.	Name	Relation to HH	Sex	Age	Current main Occupation	Education level
1.	_____	_____	_____	_____	_____	_____
2.	_____	_____	_____	_____	_____	_____
3.	_____	_____	_____	_____	_____	_____
4.	_____	_____	_____	_____	_____	_____
5.	_____	_____	_____	_____	_____	_____
6.	_____	_____	_____	_____	_____	_____
7.	_____	_____	_____	_____	_____	_____
8.	_____	_____	_____	_____	_____	_____

1.4 What is the total number of dependents who are school-age children, disabled or/and old enough? _____

2. INCOME AND ASSET INFORMATION

2.1 What is the average monthly income of your business for the last two years? _____

2.2 For the last two years, what has been the trend in the level of your overall income?

- a) Increased significantly _____ b) Increased _____ c) Remained the same _____
- d) Decreased _____ e) Decreased significantly _____

2.3 Why did your income increased (if increased)?

- a) Able to buy inputs _____ b) Able to purchase of business assets _____
- c) Working capital from credit _____ d) Expand existing business _____
- e) Got jobs _____ f) Good agricultural season _____
- g) Others (specify) _____

2.4 Why did your income stayed the same or decreased (if stayed same or decreased)?

- a) Lack of credit _____ b) Crop failure _____ c) Family member lost employment _____
- d) Illness or death in the family _____
- e) Others (specify) _____

2.5 Do you have livestock? Yes _____ No _____

If yes, list their type, number and average price per unit as follows:

Type	No.	Price per unit	Type	No.	Price per unit
a) Oxen	_____	_____	f) Sheep	_____	_____
b) Cows	_____	_____	g) Mule	_____	_____
c) Calves	_____	_____	h) Horses	_____	_____
d) Bulls	_____	_____	I) Donkey	_____	_____

- e) Goats _____ j) poultry _____
 k) Others _____

2.6 Does the number of your livestock for the last two years is increased? _____
 Stayed same? _____ Decreased? _____

- i) If increased, why?
 a) _____
 b) _____
 c) _____
 ii) If stayed same or decreased, why?
 a) _____
 b) _____
 c) _____

2.7 Do you have plants now? Yes _____ No _____

If yes, list their type, number and average estimated values as follows:

Type	No.	Estimated value (in Birr)
a) Coffee	_____	_____
b) Banana	_____	_____
c) Enset	_____	_____
d) Chat	_____	_____
e) Gesho	_____	_____
f) Others (specify)_____	_____	_____

2.8 Did you make expansion or improvement of your crop production? Yes ___no ___

- i) If yes, why?
 a) Access of credit _____
 b) Sold the assets _____
 c) Others (specify) _____
 ii) If no, why?
 a) Lack of access to credit _____
 b) Lack of land _____
 c) Low level of income _____
 d) Others (specify) _____

2.9 Do you own land? Yes _____ No _____

If yes,

- i) Is it sufficient for your activities? Yes _____ No _____
 ii) Land (ha):
 a) Your own cultivated land per hectare _____
 b) Your own grazing land _____
 c) Uncultivated land _____
 d) Rented land _____
 iii) If your own land was under cultivated or rented, why?
 a) Unable to work _____
 b) Lack of working capital _____

- c) Excess land _____
 - d) Unable to buy inputs (oxen, fertilizers, herbicides, etc) _____
 - e) Unable to purchase business assets _____
 - f) Others (specify) _____
- iv) Have you shortage of farm oxen to plough your land for the last twelve months? Yes _____ No _____
- If yes, what options do you have to plough your farmland?
- a) Hiered _____ b)Dabo _____ c)Relatives _____
 - d) Exchange _____ e) others (specify) _____

2.10 What type of house do you have for the last two years?

- a) Roof with iron sheet _____ b) Roof with grass _____ c) Others (specify) _____

2.11 Did you make improvement of your type of house (from grass roof to iron sheet roof) for the last two years? Yes _____ no _____

- i) If yes, why? a) Access to credit _____ b) Improved income _____
- c) Gift or aids _____ d) Others (specify) _____
- ii) If no, why?
- a) _____
- b) _____
- c) _____
- d) _____

2.12 What is the estimated market value of your house? Amount in Birr _____

2.13 What are the types, numbers and estimated value of your purchases assets for the last twelve months?

Type	No	Total value in Birr
Chair	_____	_____
Table	_____	_____
Radio	_____	_____
Tape-recorder	_____	_____
Others	_____	_____

2.14 Has your purchasing power to buy these items improved over the last two years?

- i) If yes, why?
 - a) Increase in income from loanable activities _____
 - b) Increase in income from non-loanable activities _____
 - c) Gifts or aids _____
 - d) Others _____
- ii) If no, why?
 - a) Lack of credit _____ b) Lack of working capital _____
 - b) Crop failure _____ d) Others _____

2.15 What are the major sources of your income for the last twelve months?

- a) Receiving loan (specify sources) _____ b) Selling livestock _____
- c) Selling crops _____ d) Selling household furniture _____
- e) Selling fire-wood _____ f) Selling straw and cow dung _____
- g) Others (specify) _____

2.16 What are social obligations that forced you to sell your produce?

- a) Purchase of improved seeds _____
- b) Purchase of fertilizers _____
- c) Purchase of herbicides _____
- d) Consumption _____
- e) Others (specify) _____

2.17 What are the items and total estimated value of your sale for the last twelve months?

Items	Total amount (in birr)
Crops	_____
Livestocks	_____
Selling firewood, straw & cow dung	_____

2.18 What were your average annual expenses to buy inputs for production for the last twelve months?

Types	Total amount (in birr)
Inputs	_____
Feeds for livestock	_____
Others (specify)	_____

3. NUTRITION AND CONSUMPTION EXPENDITURE INFORMATION

3.1 Types of meals did you have for the last twelve months:

- a) Breakfast _____
- b) Between breakfast and midday meal _____
- c) Midday meal _____
- d) Between midday meal and evening meal _____
- e) Evening meal _____

3.2 Does the number of types of your meals for the last two years improved _____ stayed same _____ increased _____

3.3 What is the approximate monthly consumption expenditure of your household

for the last twelve months? Amount in birr _____

3.4 Who was the bearer of the expenditure?

- a) Yourself _____
- b) Other family member _____
- c) Yourself and other family members _____

- d) Donors _____
- e) Others (specify) _____

3.5 Is there an increase in consumption expenditure or household diet of your household for the last twelve months? yes _____ no _____

i) If yes, why?

- a) _____
- b) _____
- c) _____

ii) If no, why?

- a) _____
- b) _____
- c) _____

3.6 If your household diet is improved, what have been the major improvements?

- a) Able to buy more cereals and staples such as teff, maize, etc. _____
- b) Able to buy vegetables and fruits _____
- c) Able to buy dairy products such as milk, meats, etc. _____
- d) Able to eat three meals a day _____
- e) Others (specify) _____

3.7 If your household diet has not been improved for the last twelve months, what are your major reasons?

- a) _____
- b) _____
- c) _____
- d) _____

3.8 Have you faced shortage of food for the last twelve months? yes _____ no _____

If yes, for which month(s)? _____

4. ACCESS TO EDUCATION INFORMATION

4.1 If you have children and other school-age family dependents, how many of them are currently attending school? _____

4.2 What is your average educational expenditure per year? Amount in birr _____

4.3 Does the number of your family attending school for the last two years is increased _____ stayed same _____ decreased _____

i) If increased, why?

- a) Income improvement _____
- b) Building school _____
- c) Others _____

ii) If decreased, why?

- a) Low level of income _____
- b) Too far school _____
- c) No need of attending school _____
- d) Others (specify) _____

4.4 If there are school-age children, not attending school, why?

- a) Needed for help in the business activities _____
- b) Needed for help in non- business activities _____
- c) Too far school _____
- d) Insufficient money _____
- e) Disabled _____
- f) Lady child _____
- g) No need of school _____
- h) Has attained enough (specify his/her grade) _____

5. ACCESS TO MEDICAL FACILITIES INFORMATION

5.1 Could you respond yourself financing to get medical facilities to your family for the last two years? Yes _____ No _____

If yes, who could the bearer of the expenditure?

- a) Yourself _____
- b) Relatives _____
- c) Donors _____
- Others _____

5.2 What is the average annual household medical expenditure for the last twelve months? Amount in birr _____

5.3 In the last twelve months, was any ill or injured member of the household not taken for medical attention or treatment because the household lacked the money to pay for it? Yes _____ No _____

5.4 Do you think that your access to medical facilities or your responsiveness has been improved for the last two years? Yes _____ No _____

If yes, what are the main reasons?

- a) Access of money from the loan able activities _____
- b) Better local treatment _____
- c) Borrowed from other sources _____
- d) Sold the assets from the loan activities _____
- e) Others (specify) _____

6. EMPLOYMENT AND BUSINESS ACTIVITIES

6.1 What are the major type of activities you engaged for the last two years?

- a) Agricultural activities _____
- b) Animal husbandry _____
- c) Food production _____
- d) Local drink preparation _____
- e) Retail trade _____
- f) Wood or metal work _____
- g) Others (specify) _____

6.2 Do you think that your employment opportunities have been improved for the last two years? Yes _____ No _____

6.3 Have you improved number for your business activities? Yes _____ No _____

6.4 Do you think that your income has been improved because of improvement in job opportunities, which is financed from the loan? Yes _____ No _____

6.5 Have you used hired labor in your business activities? Yes _____ No _____

6.5.1 If yes, a) How many _____ b) Is it seasonal or permanent? _____

c) For which activities? _____

6.5.2 If no, why?

a) _____

b) _____

c) _____

6.6 For the business, which gives you the greatest earnings, who in your household decides?

a) Husband only _____ b) Mostly husband _____ c) Husband and wife equally _____

d) Mostly wife _____ e) only you (for single) _____

7. SAVINGS INFORMATION

7.1 Do you have a personal saving account since two years (alone or jointly with spouse)? Yes _____ No _____

If yes, a) What type of savings?

i) Compulsory _____

ii) Voluntary _____

iii) Saving and credit association _____

iv) Iqqub _____

v) Iddir _____

vi) Others _____

b) Specify the average monthly saving amount in Birr:

Compulsory _____ Voluntary _____

c) For what purpose did you save?

i) Loan repayment _____

ii) To earn profit _____

iii) To withdraw incase of urgent needs _____

iv) Others (specify) _____

d) Have your personal cash savings Increased? _____ Decreased? _____ Same? _____

e) What have been your major uses of savings during the last twelve months?

i) Re-invested _____ ii) Household expenditure _____

iii) Ceremonies (wedding, holidays,) _____ iv) Urgent needs _____

v) Bought basic items _____ vi) Made improvement to the house _____

vii) Buy animals _____ viii) Have not used savings yet _____

ix) Others (specify) _____

f) Rank the first three main reasons of using your savings?

1st _____

2nd _____

3rd _____

8. LOANS FROM ANY FINANCIAL INTITUTIONS EXCEPT MFI (OCSSCO)

8.1 Did you have access to credit from other formal or informal financial institutions for the last two years? Yes _____ No _____

8.1.1 If yes,

i) Was it from: a) Banks _____ b) Relatives / friends _____ c) Individual money lender _____ d) Iddir _____ e) Others (specify) _____

ii) Why did you borrow?

- a) Greater security _____
- b) Easier to get _____
- c) Seems more friendly _____
- d) Cheapest _____
- e) Others (specify) _____

iii) For what purposes did you find the loan?

- a) Food consumption _____
- b) Clothing _____
- c) Business activities _____
- d) Purchase agricultural inputs _____
- e) Medical or health services _____
- f) Others (specify) _____

iv) Amount in birr _____ Interest rate _____

v) Did you get the amount you requested for your business?

Yes _____ No _____

vi) If repayments are in arrears, what are the major causes of the problem?

- a) Loan activity was not profitable _____
- b) Profitable but used some of the loan for household expenditures

_____ c) Profitable but the output was sold in credit and did not get paid back

- _____ d) Used for non-intended purposes _____
- e) Loss of assets _____
- f) Crop failures _____
- g) Profitable but theft/damage _____
- h) Others (specify) _____

vii) Did you use production credit for consumption purpose? Yes _____ No _____

viii) Loan size:

- a) Enough for the intended purpose? Yes _____ No _____
- b) Not enough for the intended purpose? Yes _____ No _____
- c) More than the capacity? Yes _____ No _____

ix) Is there any of your property under liability?

- a) What? _____
- b) Under what agreement? _____

8.1.2. If you do not have any access to credit, what was the main reason(s):

- a) Lack of near institution _____
- b) High interest rate _____
- c) Collateral requirement _____
- d) No information of loan _____
- e) Others (specify) _____

8.2 Is there any member of your family in other credit group or received loan from any one of financial institutions or moneylenders? Yes _____ no _____

9. Loan From OCSSCO (only for clients)

9.1 What was the amount of loan received from and repaid to OCSSCO after the program participation (in Birr)?

Loans	Applied date (MM/YY)	Date of received (MM/YY)	Amount of received	Amount repaid within due date
Loan 1	_____	_____	_____	_____
Loan 2	_____	_____	_____	_____
Loan 3	_____	_____	_____	_____
Loan 4	_____	_____	_____	_____
Loan 5	_____	_____	_____	_____

9.2 Did you get the amount you requested for your business? Yes _____ No _____

9.3 Was the amount of your loan size:

- a) Enough for the intended purpose? Yes _____ No _____
- b) Not enough for the intended purpose? Yes _____ No _____
- c) More than the capacity? Yes _____ No _____

9.4 Have you been trained about loan utilization? Yes _____ No _____

If yes, has it been satisfactory? Yes _____ No _____

9.5 If repayments are in arrears, what are the major causes of the problem :

- a) Loan activity was not profitable _____
- b) Profitable but used some of the loan for household expenditures _____
- c) Profitable but the output was sold in credit and did not get paid back _____
- d) Used for non-intended purposes _____
- e) Loss of assets _____
- f) Crop failures _____
- g) Profitable but theft/damage _____
- h) Others (specify) _____

9.6 Main intended purposes:

Item	Amount in Birr
------	----------------

1. _____
2. _____
3. _____
4. _____
5. _____

9.7 Actual use of loan on purpose specified in the loan agreement

Item	Amount in Birr
1. _____	_____
2. _____	_____
3. _____	_____
4. _____	_____
5. _____	_____

9.8 Actual use of loan on non-intended purpose specified in the loan agreement

Item	Amount in Birr
1. _____	_____
2. _____	_____
3. _____	_____
4. _____	_____
5. _____	_____

9.9 Did you use production credit for consumption purpose? Yes _____ No _____

9.10 If you spent some or all of the loan on non intended purpose:

i) Specify your reasons:

- a) Excess loan _____ b) To create additional source of income _____
 c) Because of personal problem _____ d) others (specify) _____
 ii) Was it on income generating? Yes _____ No _____
 iii) Was it on non-income generating? Yes _____ No _____

9.11 Was the repayment period appropriate for your point of view? Yes _____ No _____

If no, specify the reason and recommend an appropriate period:

- i) Reasons a) _____
 b) _____
 c) _____
 ii) Recommended appropriate period _____

9.12 Do you believe that loan should be repaid? Yes _____ No _____

9.13 Do you believe that cost of default is high? Yes _____ No _____

If the cost of default is high, to which cost of default do you give more emphasis?

- a) The claims against personal wealth _____
 b) The claims against guarantees _____
 c) Social sanctions _____
 d) Loss of future access to credit _____
 e) Others (specify) _____

9.14 What do you think about the timeliness of loan issue?
i.e was loan issue timely? Yes ____ No ____
a) If no, has it negative impact on your business? Yes ____ No ____
b) If no, what was the impact of
it? _____

9.15 Do you keep financial records for your business? Yes _____ No _____
If yes, does it help you in your loan repayment? Yes _____ No _____

9.16 What do you think the transaction costs of the program in relative to formal
banks?
Fair _____ Same _____ High _____

9.17 What do you think the distance from institutional credit in relative to formal
banks?
Less _____ Same _____ High _____

10.SUPERVISION AND ADVISING (ONLY FOR CLIENTS)

10.1 Have you had any training or consultancies from OCSSCO for your business
activities? Yes _____ No _____

If yes, what type of training or advice did you get?
Management _____ b) Marketing _____ c) Production
_____ Loan utilization _____ e) Book-keeping _____ f) Others
(specify) _____

10.2 Was any supervision on loan utilization and loan repayment? Yes ____ No ____
If yes, a) Satisfactory _____ b) Not satisfactory _____
If not satisfactory, do you believe that it has contribution for your loan default?
Yes ____ No ____

10.3 Do you believe that supervision whether it is from OCSSCO staff or kebele
administration has advantage on loan utilization and repayment? Yes ____ No ____

10.4 How many times you have been visited per one loan duration of time?

11. OTHER INFORMATIONS (ONLY FOR CLIENTS)

11.1 How many members does your group have? _____

11.2 Did you know all of your group members before joining it? Yes ____ No ____

11.3 Do you feel that you might be sued in case of failure to repay the loan? Yes _No
_

11.4 Do you monitor whether a member of your group uses the loan for the intended
purposes or not? Yes _____ No _____

If yes, what actions do you take in case of diversion or not to use the loan for the
intended activities? _____

11.5 Please list the major products produced from your business activities financed by
the loan:

- a) _____
- b) _____
- c) _____
- d) _____

11.6 How was the demand for your products? High ____ Average ____ Low _____

11.7 What was the price of your products? Increases __Decreases __No change ____

11.8 Did you use purchase inputs for your business?

- a) Before loan? Yes _____No _____
- b) After loan? Yes _____No _____
- c) Has it been improved after loan? Yes _____No _____

11.9 Overall, has your live been better after loan than before the program participation?

Yes _____No _____

11.10 What is your overall opinion about the program?

11.11 Please suggest if any means of more appropriateness for the program _____

11.12 During your participation period, what have been the major constraints in operating your business?

- a) Insufficient fund _____
- b) Insufficient or lack of land _____
- c) Lack of business knowledge _____
- d) Lack of market for output _____
- e) Lack of knowledge of using the loan _____
- f) Loss or damage _____
- g) Weather conditions _____
- h) Lack of capital _____
- i) Others (specify) _____

11.13 From your answer above, rank the three most constraints :

- 1st _____
- 2nd _____
- 3rd _____

11.14 What issues have been raised during meetings?

- a) _____
- b) _____
- c) _____
- d) _____
- e) _____

11.15 Do you think that you will continue in the program? Yes ____No _____

If yes, why?

- a) _____
- b) _____
- c) _____

If no, why?

- a) Too small loan amount _____
- b) Too short loan length _____

- c) Inappropriate time of loan repayment _____ d) Conflicts with members _____
e) Obtaining enough capital _____ f) Unable to repay the loan _____
g) Decide to close the business _____ h) Others(specify) _____

Give any comments to the company:

Weakness:

Strengthness: _____
