

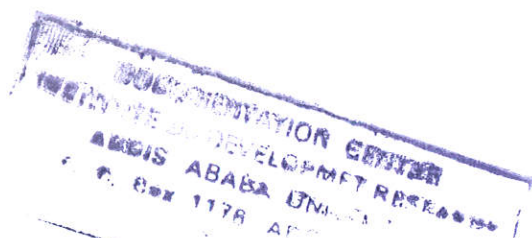
THE IMPACT OF MICROFINANCE ON URBAN POVERTY REDUCTION

The case of Addis Credit and Saving Institution (AdCSI)

By: TSIYON HAILU

A Thesis submitted to the School of Graduate Studies of Addis Ababa University in Partial Fulfillment of the Requirements for the Degree of Master of Arts in Environment and Development Studies.

ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
COLLEGE OF DEVELOPMENT STUDIES
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Advisor:-Dr.ABDULHAMID BEDRI

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**ADDIS ABABA UNIVERSITY
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Title

***The Impact of Microfinance on Urban Poverty
Reduction. The Case of Addis Credit and
Saving Institution (ADCSI).***

**By
Tsiyon Hailu**

DEVELOPMENT STUDIES

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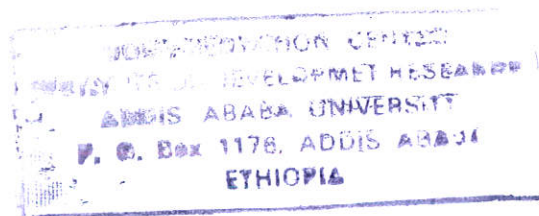


Dr. Abdulhamid Bedri
ADVISOR



Dr. Ali Hassen
INTERNAL EXAMINER





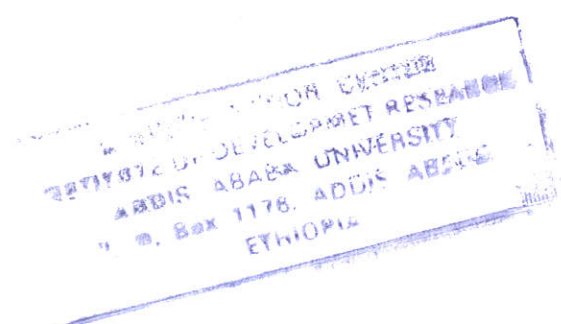
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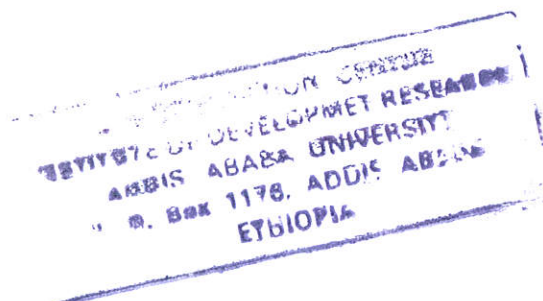
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Abstract

The main objective of the study is to evaluate the contribution of AdCSI towards poverty reduction and job creation. The study was conducted on all of the branches of AdCSI employing the “before” and “after” method so as to evaluate the impact of the microfinance institution on reducing poverty level of its clients.

Primary data was collected using structured interview, FGD, and observational check list while secondary data was obtained from the records of the institution, journals, proceedings, bulletins, internet and various books. Both descriptive and inferential statistics such as mean, percentages, Wilcoxon signed ranks test and independent two samples t-test was employed. Multistage sampling method was employed to take a sample of clients from the total population.

The saving amount of the respondents’ has increased after participating in the program with difference in mean saving between the male and female clients. All of the socio-economic variables have shown a significant increment after program participation. And there was no significant difference between both sexes regarding the socio-economic variables except for the level of income after loan. According to the study 96.1% of the mature clients witnessed increase in income levels. The average monthly income of the male clients increased from 918.6 to 2157.1 ETB and the females’ increased from 814.8 to 1834.8 ETB after program participation. The reasons for positive change in income of the beneficiaries were: through the loan they were able finance productive capital assets and finance the working capital of the business. Therefore, the credit helped them to open a new business, expand the existing and diversify sources of income. According to the study 64.1% of the sample beneficiaries purchased productive assets due to access of loan and 79.2% reported that their households’ over all diet condition has improved after program participation and only 77.5% of the clients could afford to medical expenditures of their families before program participation but the number increased to 99.2% after the intervention.

Thus, seeing the positive effect of the credit program on the beneficiaries’ socio-economic conditions, it can be said that the institution is on the right track to achieve its ultimate objective of poverty reduction.

CHAPTER ONE

INTRODUCTION

1.1 Background

Poverty is multifaceted and its definition has become ever controversial. "The recent definition of poverty by the World Bank (World Development Report 2000/2001) broaden the concept than defining it merely from the traditional ideas of income poverty to a more comprehensive concept incorporating or characterized by a lack of purchasing power, exposure risk, insufficient access to social and economic services, sense of voicelessness and few opportunities for income generation" (Getahun, 1999). Pursuant to the same source, the broader approach which presents poverty as an aggregate view has the advantage of increasing our understanding of its causes, which intern brings more areas of action and policy on the poverty reduction agenda.

A number of factors are usually described as triggers of poverty; some of these are lack of asset, employment opportunity, income, skill, technology, education, health and environmental problems (Getahun, 1999). But one factor which is the point of this research is lack of financial resources for capital formation (Wolday, 2003). Despite majority of Ethiopians poor are those living in rural areas, engaged in subsistence peasant agriculture (Solomon, 1996), the number of urban poor is increasing in a faster pace than is the number of rural poor (Solomon 1996; Getahun, 1999). An estimate of the 1999/00 Household Income, Consumption and Expenditure survey (HICE) revealed that 44% of the Ethiopian population is under absolute poverty (MOFED, 2006). Similarly About 27 million people were living under chronic poverty in Ethiopia in 1990. It is commonly understood that most of these poor particularly in the urban areas are engaged in the informal sector (Bekele, 1996). Lack of access to financial resources such as credit by the poor is one of the causes of poverty especially in Sub-Saharan African Countries (World Bank, 1996).

Cognizant of this fact the government of Ethiopia in its plan for Accelerated and Sustained Development to End Poverty (PASDEP) policy document gave high importance for the role of Microfinance service in the endeavor of Ethiopian poverty reduction and alleviation. The document targeted over all agriculture value added to grow at an annual average real rate of 6.2% during the PASDEP Period (2005/06 – 2009/10). Among other things such progress depended upon the availability of affordable credit through the active promotion of MFIs. The policy also in its urban development strategy pinpointed four pillar strategies to increase the pace of urban development, of which “supporting medium and small enterprises”, with the aim of reducing urban unemployment down to less than 20%. One of the actions should be taken to create job opportunities is expanding microfinance institution that focus on the need of the urban poor (MOFED, 2006).

The government created a conducive environment for the development of micro finance institutions by issuing proclamation No. 40/1996. Following the issuance of the proclamation a number of them have been institutionalized. As of 2009, there are 31 microfinance institutions which are registered by the National Bank of Ethiopia (NBE) and engaged in the business of micro financing (NBE, 2009).

Addis Credit and Saving Institutions (AdCSI) is one of the microfinance institution in Ethiopia established in 2000 accordance with proclamation No. 40/1996. The AdCSI is established as Share Company whose share holders are nominal and its operation is running in 10 branches and 99 service delivery posts at each sub city and kebele level respectively.

As indicated in the institution’s policy document (2002:1), the vision of AdCSI is to “become sustainable financial institution, active contributor towards poverty reduction effort and to see improvement in the life of low – income

people.” And it has been providing service almost for ten years, but no serious attempt has been made to evaluate the impact of such service on the reduction of poverty and job creation. As a result, this research provided information to fill this gap and forwarded feasible recommendation for those problems faced by the clients which retarded the service not to meet the desired change in the living condition and on the income of the beneficiaries.

1.2 Problem Statement

Poverty and hunger instigated and exacerbated by conflict were the country’s endemic social and economic problems for most of the second half of the 20th century. In the first decade of the 21st century, they still remain as central policy concern to the government of Ethiopia. In spite of tremendous efforts, Ethiopia is still among the poorest developing countries with an annual average per capital income of us \$180 in 2005 (PASDEP, 2007). The country is one of the poorest and most under developed countries of the world and containing the largest population among the sub-Saharan African nations. Its economy is largely dominated by small scale, non-mechanized agriculture sector (Abadi, 2007).

To reduce income poverty and human deprivation in many dimension and intern to achieve the targets of MGDs, developing countries need to prepare their own mix of policies which is based on national priorities and local realities (World Bank, 2000). Microfinance is not a panacea for poverty, but it is important way among the antipoverty instrument of the development programs (Harper, 2003).

The best known story about roots of Microfinance is that of Muhammad Yunus and the founding of Bangladesh’s Grameen Bank (Armendariz and Morduch, 2005). Since the 1980s the development of MF programs gained a worldwide

acceptance and popularity, as one method of poverty reduction (Ledgerwood, 1999).

The condition of poverty has been interpreted as one of lack of access by poor households to the assets necessary for a higher standard of income or welfare, whether assets are thought of as financial, human, natural and social (Montgomery and Weiss 2005; World Bank, 1996). And lack of access to financial asset is understandable in terms of collateral that the poor can offer conventional financial institutions; high costs involved in dealing with large number of small amount of loan; limited education and familiarity with loan procedures; exorbitant interest rate (Bekele, 1996; Solomon, 1996; Montgomery and Weiss, 2005; Assefa et al, 2005). And the goal of microfinance institutions as a development organization is to serve the financial needs of the poor who are engaged in the informal sector and un-served or under-served by the formal financial institutions. It serves as one means of reducing poverty through creating job opportunities; help existing business grow or diversified; (Ledgerwood, 1999).

Cognizant of the potentials of MF, the government of Ethiopia gave high priority for the proliferation of these institutions in its PASDEP strategy (MOFED, 2006). But relative to the experience of other developing countries, its development in institutionalized form is recent phenomenon (Solomon, 1996). Thus, with the aim of poverty reduction in Ethiopia also, there has been provision of financial service to the poor (Wolday, 2003) through MFIs but there has not been sufficiently evaluated impact assessment (Meehan, 1999).

Pursuant to Ledgerwood (1999), MF impact assessment is the process that seeks to determine if the intervention has had the desired outcome of poverty reduction and employment creation. There were very limited researches towards improving the financial sector and even these limited researches are more concentrated on institutional sustainability rather than client impact. As

a result, studying the impact of microfinance intervention is important to narrow this gap (Wolday, 2003).

Similarly, there is no serious attempt made by AdCSI to evaluate whether or not the program achieved the institution's goal of poverty reduction and job creation within the Addis Ababa City administration territory. Thus, the rationale of conducting this research is to make impact assessment of MF service which intern help the organization to improve services, increase its impact on poverty and MFI's efficiency, to provide accountability to donors and other stakeholders.

1.3 General Objective

The overall objective of this research is to assess the impact of microfinance on poverty reduction and job creation.

1.4 Specific Objectives

1. To assess the change of income as a result of the delivery of financial service.
2. To examine the impact of microfinance service on employment creation.
3. To study the impact of microfinance service on improving asset ownership and better access to education and health services.
4. To identify impact of microfinance service on food consumption.
5. Evaluate the trend of saving and thrift.

1.5 Research Questions

1. Do Addis Credit and Saving Institution contribute for the reduction of poverty and job creation?
2. What is the magnitude of change on client's socio economic status?
3. What problems did borrowers face that retard the credit not to have the desired impact?

1.6 Significance of the Study

As the main purpose of the research is to assess the impact of microfinance service on the beneficiaries' socio-economic condition and wellbeing, that indicates whether or not there is betterment of living condition, reduction of poverty and creation of job opportunities. Thus, the finding of this research could be significant to:-

- i. The AdCSI management to make informed decision regarding whether to modify the product or/and introduce a new one based on the need, or change the way they used to deliver it, to make the service customer-centered.
- ii. The output of this research can serve as background information for further research work on the area.
- iii. It also can be helpful for those who are engaged in policy making. They can use impact assessment information to influence policy change and budget allocation decisions.
- iv. Also important for donors, those who support the institution want to know if their intervention is having the desired impact.

1.7 Scope of the Study

The study covered the beneficiaries residing in all the ten sub-cities but the study was based on five kebeles from each sub city. And it was limited to those beneficiaries who have been actively using the financial service of the MFI since the year 1997E.C.

1.8 Limitation of the Study

As the research only focused on one MFI, the finding of the research only reflects information regarding those beneficiaries who are the clients of AdCSI and residing within the Addis Ababa city administration territory. Thus, it may not have a strong scientific justification and representativeness to generalize about the impact of MFIs on reducing poverty in the entire country.

Despite the intensiveness and wideness of the sample, the time allowed was quite short.

1.9 Organization of the Paper

This research paper is organized in to five chapters. The first chapter deals with back ground, problem statement, research questions, Objectives of the study, significance, scope, limitation and conceptual frame work of the study. The second chapter focused on pertinent literatures and relevant empirical case studies to the research. Whereas chapter three described the research methodology used in the study. Lastly, chapter four and five deals with the major findings of the study and conclusion and recommendation part of the study respectively.

1.10 Conceptual Frame Work

The clarification of basic concepts as poverty, impact assessment is crucial before assessing and measuring the impact of microfinance on the life of the poor.

Tesfaye (2002) Getahun (1999) noted that there is no precise definition of poverty meaning it is characterized with no single indicator. Some tries to define it from the point of material deprivation thus focus on consumption usually using income. Others identified various forms of deprivation which could not be captured by income poverty measures. The recent definition of poverty by the World Bank (World Development Report, 2000) broaden the concept than merely a material deprivation measured by income to a more comprehensive concept of lack of opportunities, capabilities, Sense of voicelessness and vulnerability to external shocks. For the purpose of this paper the definition of poverty incorporates economic and social deprivation of people or household.

CHAPTER TWO

REVIEW OF THE LITERATURE

2.1 The Concept of Poverty

There is no clear consensus among development experts and policy makers on how to define measure and eradicate poverty (Meehan, 1999). Accordingly, there is no a single absolute and standardized definition to it. Getahun (1999) substantiates this argument saying: various approaches exist in defining poverty that range from the objective, quantifiable to those which are subjective and qualitative nature. Thus, poverty has multiple characteristics which make it difficult to capture in a single definition.

There are two concepts of poverty; these are absolute and relative ways of measuring poverty or standard of living (Getahun, 1999). Both relative and absolute definitions of poverty refer to a cross cutting- level below which people are categorized as poor. This cross cutting- level is known as poverty line.

Absolute poverty is the inability to attain minimal standards of consumption to meet basic physiological and biological needs. In absolute sense the poor are materially deprived to the extent that their survival is at stake. A relative poverty is a standard of living which is below a certain proportion of the national mean per capita income or expenditure. In relative term, this people are also deprived in relation to other social groups whose situation is less constraining (World Bank, 1990). In the words of Bibangabah (1985), "people are poverty stricken when their income, even if adequate for survival, falls radically behind that of the community. Then they can't have what the larger community regards as the minimum necessary for decency, and they can't wholly escape, therefore, the judgment of the larger community they are indecent. They are degraded, for in the literal sense, they live outside the grades or categories which the community regards as acceptable".

Trufat (1996); Getahun (1999) noted that the concept of relative poverty as such is primarily concerned with the distribution of income and inequality in living conditions among a population. Thus, to eliminate relative poverty requires equalization of the distribution of income.

Pursuant to Macpherson and Silburn (1998) cited in Abebe (2006) provide three approaches for the definition of poverty. These are: the subsistence poverty approach, the basic needs approach and the relative deprivation approach. The subsistence approach focuses on the minimum income or resource that helps to maintain the biological and physiological needs such as food, water, clothing and shelter. The major importance of basic needs approach is that it is not limited to the physiological and biological need of individual to survive, but recognizes the importance of a range of community services such as safe drinking water, sanitation, transport, health and education. Thus, in this approach poverty is not only lack of income to maintain biological and physiological needs but it is also lack of accessing range of community services.

The relative deprivation approach maintains that any measurement of poverty is based up on comparison, often with some notion of prevailing living standards in the community being researched. In Bhalla and Lapeyre (1999), Townsend defines poverty in terms of "relative deprivation" as: "A state of observable and demonstrable disadvantage relative to the local community or the wider society or nation to which an individual, family or group belongs." For him there are two types of deprivation that the poor experience. These are material/physical deprivation and social deprivation (related with education, recreation, family). Thus, one might examine prevailing pattern of expenditure and consumption and define as poor those whose incomes or resources are not sufficient to provide them with those goods and services that will enable them to live a life that is favorable according to community life styles.

According to the definition given by those experiencing it bear an important testimony to its meaning. A man from Ethiopia defines poverty as: "we are skinny; we are deprived and pale, and speak of life that makes you older than your age". Also a man from Kenya defines poverty in such a way that it becomes important witness that material well-being is very important. The man says: "Don't ask me what poverty is because you have met it outside my house. Look at the house and count the number of holes. Look at my utensils and the clothes I am wearing. Look at everything and write what you see. What you see is poverty" (World Bank, 2000:3).

Poverty is conventionally measured by the income or expenditure level that can sustain a bare minimum standard of living, but poverty is multifaceted (Getahun, 1999). Rao and Bavaiah (2005:73) support the argument saying that, poverty is used to be understood from the point of subsistence level of living but now it is widely accepted that the problem of poverty is more deep rooted covering several interlocked aspects such as assetlessness, underemployment, uncertain and relatively unproductive employment, low remuneration, lack of bargaining power, economic vulnerability, illiteracy, proneness to disease, social disadvantage and political powerlessness.

Pursuant to Johnson and Rogaly (1997) the notion of poverty not only understood as low levels of annual income per household but often it has further dimension which is often the focus of NGO intervention is: powerlessness and vulnerability to downward fluctuations in income. According to the same source, "powerlessness can be experienced in a variety of situations. Within the household, it is as a result of difference in gender and age; and within the community, it is between socio-economic groups as a result of caste, ethnicity and wealth" (Montgomery and Weiss, 2005).

World Bank (2002) noted that vulnerability to downward fluctuations in income result from unexpected risks such as crop failure, illness, loss of an asset or natural disasters, violence and crime. There is increasingly a shift in people's perception of poverty away from viewing it as one dimensional issue towards seeing it as multifaceted problem in which a large number of government and non-governmental organizations and international funding agencies all over the world have been engaged in this seemingly unending war against it (Rao and Bavaiah, 2005; World Bank, 2000).

As noted on World Bank (2000) the broader approach which present poverty as an aggregate view has the advantage of increasing our understanding of its causes, which in turn brings more areas of action and policy on the poverty reduction agenda. Moreover, the report noted that as the different aspects of poverty interact and reinforce one another, thus, there is a need of understanding these complementarities in designing and implementing programs and projects that help people escape out of poverty.

2.2 The Causes of Poverty

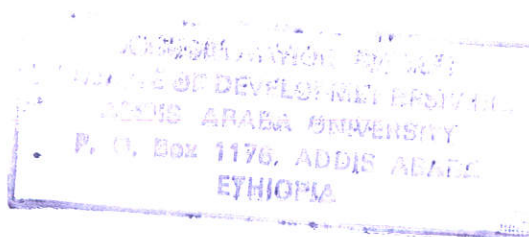
The causes of poverty are multiple and highly complex in their interrelationship (Cooksey, 1994) cited in (Abebe 2006). Getahun (1999) noted that a number of factors are usually described as causes of poverty. He attempted to put forward the triggers of poverty. These are lack of: asset, employment opportunity, income, skill, technology, education, health, motivation, democracy and occurrences such as land degradation, deforestation, drought, civil war, rapid population growth.

The causes of poverty according to the World Development Report World Bank (2000) are: lack of income and assets, voicelessness, powerlessness and vulnerability. World Bank (1996), noted that the lack of employment opportunities has led to increased poverty in urban areas. Most of the labor

force is engaged in the self -employment- predominately in the informal sector. But according to the report this sector is constrained by unstable working condition and vulnerability; it is also characterized by low wages, low productivity jobs, temporary activities, unsafe labor conditions and no protection under labor legislations.

People in Sub-Saharan Africa together with those in South Asia are among the poorest in the world, both in real income and in access to social services. About 45 percent of the approximately 590 million people in Sub-Sahara Africa live below the national poverty line, (World Bank, 1996). The causes of poverty in this region as identified by the World Bank's poverty task force depicted on (World Bank, 1996:3) report are as follows:

- Inadequate access to employment opportunities.
- Inadequate physical assets, such as land and capital, and minimal access by the poor to credit even on a small scale.
- Inadequate access to the means of supporting rural development in poor regions.
- Inadequate access to markets where the poor can sell goods and services.
- Low endowment of human capital.
- Destruction of natural resources, leading to environmental degradation and reduced productivity.
- Inadequate access to assistance for those living at the margin and those victimized by transitory poverty.
- Lack of participation failure to draw the poor in to the design of development programs.



2.3 Poverty Situation in Ethiopia

Ethiopia is located in the horn of Africa bordering Eritrea in the North, Djibouti and Somali in the East, Kenya in the South and Sudan in the West. Agriculture plays a critical role in the Ethiopian Economy, accounting 50% of GDP and creates employment opportunity for over 85% of the population. On average the sector accounted for over 90% of export earnings (MOFED, 2002).

Wolday (2008) noted that poverty in Ethiopia is not triggered by a single factor but it is resulted from combination of factors such as high population growths environmental degradation, high unemployment, drought, low level of literacy, limited access to resources, lack of health and education services.

Despite the high priority given for poverty reduction within the development policy of Ethiopia (Degefe, 2009), the country still remains among the poor nations of the world with a per capita GDP of USD 120 in 1995 (MOFED, 2002). Poverty indices have been calculated based on the minimum calorie required for subsistence at 2200 Kcal. The expenditure required for a basket of the recommended calories adjusted for basic non-food expenditure is estimated at ETB 1,075 per annum per person (MOFED, 2002). Based on this line, an estimate of the 1999/00 household income, consumption and expenditure survey (HICE), shows that 44% of the Ethiopian population is under absolute poverty. That means this portion of the Ethiopian population were unable to meet the minimum required calorie intake, which is 2200 kcal per adult per day. According to the same source, poverty (income poverty) has not declined significantly since 1995/96 and the poverty head count in 1999/00 showed a 3% decline from its level in 1995/96.

According to the 2004/05 HICES, the number of Ethiopian population under absolute poverty was 38.7% in 2004/05 which is lower than that of the number for 1999/00 by 12% (MOFED, 2006).

Much of the decline in national poverty is attributed by a decline in poverty in rural areas. The report of MOFED (2006) noted that there was substantial decline in rural poverty during the SDPRP period. The finding of the same report state that, the head count, poverty gap and poverty severity indices computed for the year 2004/05 for rural areas is lower by 13%, 31% and 41% respectively than its level in the year 1999/00. The report correlated the reduction of poverty (income/consumption) in the rural areas with expansion of road infrastructure. In general, the significant decline in rural poverty according to the report of (MOFED, 2006) is because of pro-poor programs that have been implemented in rural areas such as market based extension programs; the security programs and the productive safety net programs are among others. But despite such reduction of poverty in rural areas, poverty is still a rural phenomenon. This can be supported by the 2004/05 HICES finding that, the proportion of poor people who are below the poverty line was 39.5% in rural areas, whereas it is estimated to be 35.1% in urban areas.

Regarding the situation of non- income dimension of poverty in Ethiopia, based on the findings of Welfare Monitoring Survey (WMS) 2004 indicated that all indicators especially indicators of access to education and health service, nutrition, and access to water and sanitation have been better but still in rural areas only about a 1/3 of the population has some kind of access to health facility, while almost all of the urban population does have facility within the same distance just cited.

But still the rural families' i.e. 77% have to travel more than 20 km to get hospital. Despite great effort that has been done to promote essential social services such as education, health and reproductive health, the country still suffers from huge gap in social services which remains extraordinarily low compared with Sub Saharan Africa (SSA) (World Bank, 1998; MOFED, 2006).

This is partly attributed to the rapid rate of population growth and low labor productivity. Due to high fertility rates (TFR) of 7.6 births per woman, Ethiopian's population grows at a rate of 3% per annum (World Bank, 1998). According to the data from the ministry of education MOE (2001) the primary and secondary enrollment ratio was 57.4% and 12.9 percent, respectively in 2000/01. The school enrollment is on the rise but it is one of the lowest. The health indicators place Ethiopia one among the most disadvantaged countries in the Sub Saharan Africa. Of the poor health service indicators some are that of infant mortality rate, child mortality rate and that of the maternal mortality rate. Pursuant to the report of World Bank World Bank (1998) indicate that infant mortality rate is 109 per 1000 live births; child mortality under age five is 177 per 1000 live births and maternal mortality is 87 per 1000 births.

Despite the fact that most of Ethiopia's poor people are from the rural areas, the number of urban poor are increasing much faster than the rural poor (Solomon, 1996; Getahun, 1999). The 2004/05 HICES finding can be forwarded as a witness for the argument. The report noted that, from the total number of poor, the proportion of those poor people who are below the poverty line and live in rural areas constitute 39.5% whereas it is estimated to be 35.1% in urban areas (MOFED,2006).

The report of World Bank (1996) indicated that, the urban poverty trend was less encouraging and described that there was a decline in well-being. Some of the reason for this was attributed to factors such as: unemployment, increased insecurity and rising crime.

Furthermore, pursuant to the study of World Bank (1992) cited in Getahun (1999) from 6.9 million people living in urban areas of Ethiopia, about 4 million live below the poverty line specifically about 60 percent of the population in Addis Ababa were found to be below the poverty line in 1992.

2.4 The Emergence of Microfinance and the Paradigm Shift

2.4.1 Definition of Microfinance and Microfinance Institutions

Microfinance has been variously defined in the literature. No single definition exists, but variations are a matter of emphasis (Degefe, 2009). Some tries to define it narrowly from the point of micro credit, it is one among the services provided by the institutions. This is because of the early establishment of subsidized rural credit programs aimed at increasing economic development through promoting high yielding agricultural technologies in most of the developing nations during the post-World War second era of the late 1940s and the 1950s (Robinson, 2001). Only government or NGO funded subsidized micro credit are provided to the rural farmers, following this early practice some equate microfinance with micro credits. But defining microfinance only from the point of micro credit nowadays is very narrow as most microfinance services include micro savings even micro insurance and payment services.

Ledgerwood (1999) define microfinance as the provision of financial services to low income clients, including the self-employed. According to him financial service generally includes savings and credit but many MFIs provide social intermediation besides financial intermediation. Such as: group formation, development of self-confidence, and training in financial literacy and management capabilities among members of group. Thus, the definition of microfinance often includes both financial intermediation and social intermediation.

Robinson (2001) defines microfinance by giving emphasis on the nature of the service, and the consumers of the service. According to him “microfinance refers to small scale financial services primarily credit and savings provided to people who farm or fish or herd, who operate small enterprises or micro enterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicle, draft animals, or machinery and tools; and to other individual and groups at the local levels of developing countries, both rural and urban” (Robinson, 2001:9). Degefe (2003) found that the definition of Robinson (2001) is more specific on the potential beneficiaries and the type of financial service.

The term “Micro Finance Institution” (MFI) refers to an organization providing micro financial service, whether regulated or unregulated (Ledgerwood, 1999). According to same author MFIs can be nongovernmental organizations (NGOs), savings and loan cooperation, credit unions, government banks, commercial banks, or non-bank institutions. Money lenders are informal microfinance providers. In Degefe (2009), MFI are those institutions which are formal institutions, such as banks and cooperatives; semiformal institutions, such as NGOs; and informal sources such as money lenders. However, whatever can be

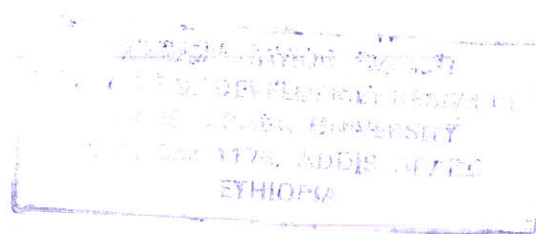
their institutional organization; these are institutions that provide micro finance services to low income groups as their principal objective.

2.4.2 The Emergence of Microfinance

During the end of World War second era of the late 1940s and 1950s there was supply leading finance theory. It means supplying finance in advance of the demand for it. In Ledgerwood (1999); Johnson and Rogaly (1997) and Robinson (2001) are evident that the governments and international donors assumed that the poor required cheap credit for economic growth through the growth of high yielding agricultural technologies for which most farmers could not afford the full costs of the credit even if they would need to purchase the new agricultural technologies. Within this assumption governments and international and donors delivered massive subsidized rural credit in many developing countries.

But the roots of microfinance can be found in many places, but the best known story is that of Muhammad Yunus and the founding of Bangladesh's Grameen Bank (Armendariz and Morduch, 2005). In the middle of the 1970, Bangladesh was starting down the long road to build a new nation. Armendariz and morduch referring the Bangladesh Bureau of statistics 1992 there were over 80% of the population of Bangladesh living in poverty in the year 1973-1974.

To reduce the poverty of people of Bangladesh, Doctor Muhammad Yunus in 1976 started a series of experiments lending to poor households. In Khandker (1998) Doctor Yunus was experimenting whether the poor were credit worthy and whether credit could be provided without collateral. His assumption was lack of access to credit is the greatest constraint on the economic advancement of the rural poor. Following his repeated experiment, he found that borrowers were profiting and repaying reliably even though his credit was not backed by collateral, which have to be offered conventional financial institution to access credit.



According to Ledgerwood (1999) and Khandker (1998), this group lending scheme for the poor later became the Grameen bank which is established in 1983 with the government of Bangladesh holding 90 percent of the shares in paid up capital. The Bank now serves more than 2.4 million clients and is a model for many countries.

Even though in most literature as Ledgerwood (1999) said, microfinance services were popularized in the 1980s, there are some who argue that microfinance is the rediscovery of existing practice. Degefe (2009) attributes the innovations of modern microfinance to centuries old private money lenders practice. He substantiates his argument by raising the works of Steinwand (2001) saying the practice of private money lending for interest gain was started in the ancient Egypt and the Middle east, also raised the early birth of microfinance in Europe during the end of the great European war (1618-48).

But all can agree including Degefe (2009) that the modern innovation in the microfinance service is more institutional and formal incorporating innovative approaches and benefiting from findings of modern research.

2.4.3 The Paradigm Shift in Microfinance

“Microfinance in the 1990s was marked by a major debate between two leading views on how to fill the absurd gap in microfinance: the “financial systems approach and the poverty lending approach” (Robinson, 2001:22). The main differences between the financial systems approach, they are also called the “Institutionist” financial system camp and the poverty lending approach also called as “Welfarist” (Rice, 2000), are summarized by Robinson (2001).

Their difference begins with the definition of the poor. The welfarists target to serve the “Poorest of the Poor”, the one who are extremely poor. But the institutionist target to serve the “economically active poor”. The World Bank

defines extreme poverty as living on less than 75 cents a day World Bank, World Development Report (1990) and on the contrary the term economically active poor is used in general sense to refer to those among the poor who have some form of employment and who are not severely food deficit or destitute.

The institutionist argued that the poorest of the poor should not be the responsibility of the financial sector rather they need poverty programs for such purposes as food, water, medicine etc to overcome desperate poverty financed by government and donor subsidies and grants. The other difference between them is that of the price of loan. The welfarists provide subsidized credit while the institutionists charge interest rate which allows cost recovery and eventually profit.

The institutionalists aim at building sustainable and large scale outreach microfinance service, to serve those who are under served by the formal financial institutions through emphasizing on achieving financial self-sufficiency, and wide breadth or scale of outreach, the latter meaning the number of clients reached. Welfarists fear that emphasis on financial self-sufficiency and building institutional sustainability would bring mission drift from poverty alleviation to a profit making.

In my belief wider outreach is desirable from the point of view of the MFIs and the public in general. Ledgerwood (1999) and Christen (1995) directly address this issue, arguing for MFIs must achieve a wider scale and that is a must if they are to be sustainable. The logic behind this is that, the loan size to poor people tends to be small, for economics of scale matter, MFIs must achieve sufficient scale which increases the volume of credit disbursed and interest earned leads to improvement in the earnings of MFIs; from the side of the public as outreach increases, the number of poor people who can access financial service would increase. As a result of it there would be creation of

employment opportunities and income increment would be a reality for the poor.

In the old paradigm, donors and governments are not that generous to continue subsidizing loan portfolio of MFI, at any point of time they may be fade up as a result they would discontinue of the program without significant impact on the lives of its clients. Unlike donor –funded micro credit programs, self-sufficient commercial microfinance institutions can provide wider outreach because they can finance their loan portfolio from a variety of sources such as mobilizing voluntary saving, accessing commercial debt. This enables them to multiply outreach by leveraging additional capital. From the part of microfinance institutions, it is desirable to reduce their dependence on subsidies from donors and governments in order to have greater impact on poverty reduction and to insure the sustainability of program (Khandar, 1998).

Armendariz and Morduch (2005) give emphasis on need to attain sustainability on the part of MFI and they argue that the institutions must have access to market resources in order to build financially self -sustainable institutions. Sustainability and wide scale outreach need to be fulfilled in order to create significant level of employment opportunities and reduce poverty. Schnider (1996) highlighted the important things that help the MFI to insure sustainability both financial self-sufficiency and institutional sustainability. These are: - cost coverage through setting appropriate lending rate, insuring high percentage of loan collection, attracting deposits through charging attractive interest rates, control of costs of operation (or promotion of efficiency), good governance structure to insure: financial and operational controls, local participation. Degefe (2009) argued that sustainability is not an end itself rather, it is a means to expand outreach. Thus, it is obvious that those institutions that continue to exist have a long term impact on the lives of the poor. As Robinson (2001) argued, low income people throughout the

developing world need a continued access to credit and savings service with the option of gradually increasing the size of their loans.

The Bangladesh's Grammen Bank and some of its replicates in other countries represent leading examples of the welfarists, while the micro banking division of Bank Rakyat Indonesia (BRI), Bancosol in Bolivia and the Association for Social Advancement (ASA) in Bangladesh are the forefront of the institutionist approach (Degefe, 2009). The best known of the early micro credit models is the poverty lending approach pioneered at Bangladesh's Grammen Bank. Even though the approach was the first witness that the poor are creditworthy to the World (Robinson, 2001), beginning in mid-1980s, the subsidized targeted credit model however was the object of critics, because most programs accumulated large loan losses for many reasons and required frequent recapitalizations to continue operating (Ledgerwood 1999). As a result a new approach that considered microfinance as an integral part of the overall financial system evolved. Emphasis shifted from the provision of subsidized loans toward the building up of sustainable institutions to serve the poor, which (Robinson, 2001) called it "the paradigm shift".

2.5 Microfinance Institutions in Ethiopia

Microfinance development in Ethiopia in institutionalized form is a recent phenomenon, but it has along history in different forms. The majority of the poor access financial services in Ethiopia through informal channels like Iqub, Iddir, Moneylenders, friends and relatives. Even though the informal financial service providers have high loan recovery rate and benefit the borrower with flexible loan terms, interest rates are very high (Wolday, 2002). An early practice of providing pro-poor finance may date back to the immediate defeat of Italians with the establishment of the then Ministry of Agriculture in 1943 and Agricultural Bank of Ethiopia in 1945. The bank had the aim of providing micro loans, to assist those farmers with small farm land of which had been

devastated during Italian invasion. The government believed that, through extending micro loans for the purpose of purchasing agricultural inputs and repair houses can accelerate socio-economic development in the country, (Assefa et al.2005).

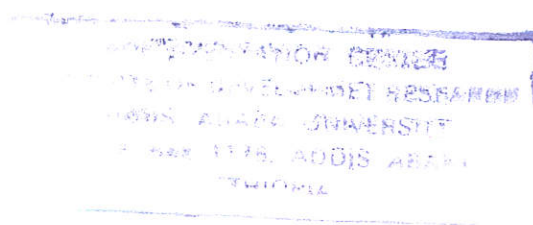
Following this there was continued effort from the part of the government to deliver financial services to the poor through government projects and programs. Through an agreement between the government and international development association (IDA) in 1990, there was provision of micro credit to the urban poor with the objective of tackling poverty through employment creation and income enhancements (Wolday, 2002). According to Hailu(2000); wolday (2002) and (EEA, 2001), some local and international NGOs granted credits to poor populations beginning from the 1970s and 1980s.This is also evident in Wolday (2008) that besides credit provision, NGO and donor funded projects had been delivering relief and development services such as emergency food, health, education, water, etc. Since the 1970s Degefe (2009), substantiated this argument of the provision of micro credit and saving schemes with the aim of helping those victims of drought and famine to develop self-employment opportunities as a result of it improved their lives. However, according to a study made by Hailu (2000), the NGOs mixed humanitarian (social) and financial objectives created many problems and the programs were criticized. The study forwarded reasons that are raised by those criticizing the program. These are attributed to factors such as provision of supply-led financial service instead of demand driven financial service, lack of loan follow up, inappropriate loan size and terms, insufficiency of risk diversification, low interest rate that did not cover the cost.

The above discussions suggest that micro credit service in Ethiopia had been provided by government projects, development banks and NGOs. Their approach of delivering financial service is known as "the poverty lending" approach (Ledgerwood, 1999). According to Wolday (2008), such micro-credit programs were characterized by over emphasis on depth of poverty outreach, provide subsidized credit, ignorance of saving mobilization and institution building.

The result of this intervention is low loan recovery; as the loan is subsidized it is highly attractive to the better off and sometimes the poor were excluded. In the 1980s and 1990s the microfinance revolution was emerged. The new paradigm shift focus on the provision of not only credit but a wide variety of financial services such as micro savings, micro insurance, money transfer etc.

In the new approach the emphasis is to build institutional sustainability and covering wider outreach through the principle of commercial microfinance service that is not based on subsidized credit (Harper 2003; Ledgerwood, 1999; Robinson, 2001).

According to Degefe (2009) with issuance of proclamation no. 40/1996 which is a regulatory framework used to license and supervise the microfinance sector in the country, all NGO and government micro credit programs were transformed to microfinance institutions. Wolday (2003) documented that majority of the NGOs' credit programs were terminated following the issuance of the proclamation. This allowed for the establishment of the deposit taking MFIs which are based on the new approach (i.e the financial system approach), of targeting to reach financial sustainability and building sustainable institution. Currently, there are 31 microfinance institutions registered under the NBE (NBE, 2009).



Ethiopia is home to the two largest microfinance institutions in Africa: the Amhara Credit and Saving Institution (ACSI) and Dedebit Credit and Saving Institution (DECSI). But the remaining MFIs have also registered a remarkable growth in outreach, efficiency and sustainability (Wolday, 2007). As of December 2006, the 27 MFIs had an active loan portfolio of about 2.2 billion Birr (us \$ 246 million) delivered to 1.5 million active clients. They also mobilized about 816 million Birr (us \$ 91 million) of savings from the clients and non clients as well. And as of June 2007, the 27 MFIs that are registered under the NBE had active loan portfolio of about Birr 2.7 billion (291 million USD), which was delivered to 73 million active clients. They also mobilized about 951 million Birr (102 million us dollars) of saving (Wolday, 2008:14). This shows the Ethiopian MFIs have attained a significant level of outreach. Microfinance service seekers according to a study commissioned by the UNDP in 2000 were six million thus it should be understood that the 27 microfinance institutions met only less than 20% for the demand for financial service of the active poor (Seyed, 2006; Wolday, 2008). This indicated that there is also a significant amount of unmet demand for microfinance service in Ethiopia.

Through the Ethiopian MF industry has exhibited remarkable progress over the past decade, reaching almost two million clients in a country of 77 million people, is also facing certain challenges that must be seriously considered. Some of these are:-

- ❖ Most of the 27 licensed MFIs have evolved either from NGO credit programs or credit component of the government programmes that are changed to MFI as required by the proclamation no. 40/1996 (Degefe, 2009). Also the commercial code of Ethiopia requires all MFIs to be established as share companies, but the shares are mostly owned by regional governments, NGOs, associations and individuals of Ethiopian origin (Syed, 2006; Degefe, 2009). NGOs are prohibited by the proclamation to directly involve themselves in MF activities as a result they had established MFIs using nominal share holders who don't really

own the shares (Gebrehiwot, 2001). Syed (2006) also support this argument saying “the so called owner has no real control over the shares”. Thus, these nominal owners have no personal stakes, and this raises the issue of whether they have sufficient incentive to monitor both the board and management (Gebrehiwot, 2001).

- ❖ Even though the MFIs in Ethiopia employ individual lending approach, they predominantly use group lending approach. They also provide limited financial service which is same kind copied from each other. The methodologies employed delivering financial service and the products are supply-driven instead of being demand-driven financial service. They have not made attempt to produce a new product that is based on analyzing the need of the clients, rather clients are forced to fit to the procedures and kinds of products which are thought good for the clients by the institutions (Wolday, 2002; 2008).
- ❖ According to a study made by Hailu (2000) the strong backing of Regional Governments has resulted in relative high repayment rates, low transaction costs, as well as rapid growth, but also this carries the risk that the management are subject to political influence which could threaten their financial performance and the clients’ credit discipline. International NGOs may also influence their boards in ways that are not always based on sound financial management criteria.
- ❖ The same study found that “NBE removed all interest rate ceilings in the financial sector in 1998, but this has not led to free market based determination of interest rates in all cases. Most Ethiopian MFIs still maintain a low rate of interest for various reasons, including political pressure, cheap funding from public or other source, and failure to allow for inflation.” But providing subsidized credit has impact on building sustainable MFI with a wider outreach (Robinson, 2001).

2.6 Microfinance and Development Policies /Strategies

There is gross inequalities inhuman development worldwide (UNDP, 2002). This fact is depicted on World Development report (2002) of the world's 6 billion people, 1.2 billion that is a fifth live on less than \$1 a day from which 44 percent living in South Asia. If we take non-income indicators of poverty such as child mortality rate, in rich countries fewer than 1 child in 100 does not reach its fifth birthday, while in the poorest countries as many as a fifth of children do not (World Bank, 2000). Also according to same source there is not only worldwide variation on the incident of poverty but there has been diverse experience in reducing poverty. For instance, in East Asia the number of people living on less than \$1 a day fell from about 420 million to around 280 million between 1987 and 1998.

Despite such encouraging reduction of poverty in these countries, the numbers of poor people in Latin America, South Asia and Sub-Saharan Africa have been on the rise (World Bank, 2000).

Cognizant of the fact of the world's poverty picture and inequality, the international community has set several goals, called the Millennium Development Goals (MDGs), in 2000 (UNDP, 2002). It contains eight goals for development and poverty reduction to be achieved by 2015.

To reduce income poverty and human deprivation in many dimensions and in turn achieve the MDGs, developing countries need to prepare their own mix of policies which is based on national priorities and local realities (World Bank, 2000). These policies and strategies should foster sustained economic growth, but pursuant to Todaro (1992) rapid economic growth without equitable income distribution has no impact on reducing poverty rather the levels of living stagnate and even decline. Todaro (1992) used the term "the growth controversy" to depict the failed promise of economic growth to take care of

poverty. He noted that many Third World (T) were able to register relatively high rates of economic growth in the 1960s but there was rising unemployment and under-employment; the distribution of incomes between rich and poor gets worse. And the same author noted that, there is a need for high rate of per capita incomes and equal distribution of income as "the magnitude of absolute poverty resulted from a combination of low per capita incomes and highly unequal distribution of that income" (Todaro, 1992).

The issues of poverty reduction and elimination can be achieved through:-

- Achieving high rates of sustained growth is undoubtedly the most important strategy for reducing poverty especially in Africa (World Bank, 1996).
- But the growth, although necessary is not sufficient condition and there should be increased employment opportunities for the poor (World Development Report, 1990). There is a need for poverty elimination strategies that support both the poor and the non-poor in society (Abu, 2006). Abu (2006) noted that for poverty reduction in a country there is a need for high growth rates which can reduce poverty significantly and this needs to be accompanied with equitable distribution of income, (World Bank, 1996; Abu, 2006).
- For poverty reduction, there is a need beyond mere growth in economic terms. But according to World Development Report (1990) growth is not sufficient unless basic social services such as health care, primary education and water supply are made accessible to the poor.
- Narrowly targeted interventions may be necessary to provide additional assistance to the very poor and vulnerable groups when growth or broad social services programs are insufficient. These targeted interventions are providing basic social service, microfinance or physical infrastructure, (World Development Report, 1990).

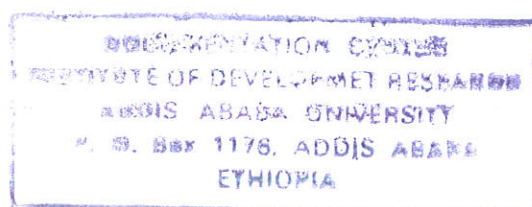
Like the other Sub-Saharan African countries, Ethiopian's growth rate is not high enough to reduce poverty significantly besides lack of equal distribution of the benefits from the growth is the main cause for poverty (World Bank, 1996).

According to Abu (2006) "addressing the problems of poverty in the country requires efforts to improve production, production efficiency, productivity, investment in human and physical capital, improving the distribution of resources and opportunities and undertaking sound institutional reforms.

Ethiopia formally embarked on anti-poverty reduction strategy called PASDEP (A Plan for Accelerated and Sustained Development to End Poverty). The plan in the five year phase aimed to achieve the goals and targets set in the MGDs at minimum (MOFED, 2006). The PASDEP is the comprehensive framework for all development programs in the country and thus, "lay out the directions for accelerated, sustained, and people centered economic development as well as to pave the ground work for the attainment of the MDGs, by 2015" (MOFED, 2006).

The core of the strategy of the policy is to achieve an annual real GDP growth rate of 7% at average provided that there are continuation and scaling-up of the policies and measures adopted to the creation of a conducive environment for private investment and foreign resource inflows, strengthening the infrastructure sector and human resource development, improved public sector service delivery, prevalence of a sound financial sector, capacity building in both public and private sectors, and the priority attached to the agricultural sector and rural development (MOFED, 2006).

The PASDEP gave high importance for the development and promotion of MFIs to alleviate both urban and rural poverty. The policy noted that the agriculture value added is expected to grow 6.2% during the PASDEP period, but such progress is depend up on diffusion of technology, successful export promotion policies and the availability of affordable credit through the active promotion



of MFIs. The PASDEP further argued that "MFIs are playing a significant role in expanding financial service to low income groups, entrepreneurs and traders, who are not usually reached by banks". Thus, one of the objectives under the PASDEP is improving the coverage of MFIs, especially in the less developed regions of the country (MOFED, 2006).

2.7 Can Microfinance Reduce Poverty?

Poverty is characterized by a lack of purchasing power (lack of income), exposure to risk, insufficient access to social and economic services and few opportunities for income generation (Getahun, 1999). Also, a definition given by the world Bank (World development Report, 2000/2001) broadens the notion of poverty beyond the traditionally, held ideas of material deprivation measured by income or consumption, to amore comprehensive concept of lack of capabilities, exposure to risk and vulnerability, voicelessness and powerlessness. According to this definition, this broad understanding of the concept increases our knowledge of its causes, as a result of which brings more areas of action and policy on the poverty reduction strategy or agenda.

According to Adams and Wilson (1994), urbanization of the developing world is characterized by a continuous movement of people from the peripheries to the core areas. This movement and stagnant expansion of employment opportunities in the formal or modern sector forced the growing share of labor force to be engaged in the "informal sector."

The characteristics of the informal sector as noted by Bekele (1996) is constituted of business operations outside government regulations, such as income tax regulation; the majority of them neither have sufficient capital to start anew or to enhance the productivity of existing business nor have taken any training; most of the entrepreneurs within this sector have low income and incapable of covering their basic needs.

For example the west African informal sector include “Survivist (Very poor people who work part time in various non-farm income generating activities); self-employed people who produce goods for sale, purchase goods for resale, or offer services and very small business (micro enterprises) that usually operate from affixed location” (Webster and Fidler, 1996). In Ethiopia most of the informal enterprises are small scale involving highly labor intensive, cheap traditional technology which needs little capital (Bekele, 1996). The same author summarized the informal business activities in to major operation:

a) Agricultural sector informal enterprises.

These are small scale farm and off-farm activities performed in rural areas. Activities included in this category are: - rearing milk cows, fattening, bee-keeping, marketing of crops and animals, horticulture crop productions etc.

b) Manufacturing, handicraft and cottage industry. The activities in this sector are weaving, pottery, wood and metal works, injera and bread making and food processing, etc.

c) Service sector informal services: activities included in this sector are shoe repair, electrical equipment repair, tailoring, hair dressing, etc.

d) Informal enterprises in petty trade. This includes grain and spices trade, selling of food, beverages, fruits and vegetables, second hand clothes, etc.

Due to the fact that the sector involves heterogeneous kinds of activities from the small scale agriculture to service, petty trade and small scale manufacturing, it often confuses both policy makers and those institutions and persons who want targeting assistance to the sector (Abogaye and yankonson, 1992). In spite of the heterogeneity of the informal sector, it absorbs half or more of labor force in the cities of the less developing world as a result it is a major agent for employment creation in poor nations (Ashe and Cosslette, 1989).

Despite its potential, the sector faced constraints and problems related with, shortage of funds either to start up new, small business or to run efficiently existing business (i.e shortage of working capital); lack of shelter and insecure business site, policy issues and marketing constraint (Ledgerwood, 1999; Bekele, 1996; Solomon, 1996).

According to Khandker (1998); Webster and Fidler (1996), lack of capital and savings make poor people not to be able to get the benefits of engaging in the micro and small scale activities.

The benefits pursuant to Ledgerwood (1999) are: through the micro credit obtained, entrepreneurs start up their own business; as a result they will increase their incomes and consequently reduce their level of poverty. Bekele (1996) noted that the major problem facing informal sector entrepreneurs who are denied credit from the conventional/traditional source due to lack of collateral, high transaction cost when providing small loan, limited education and unfamiliarity with loan procedures. The informal lenders play an important role for poor households especially in the developing world but due to high interest rate charged on the loan, i.e., it inhibited poor households from investing in productive income increasing activities (Wolday, 2002). Moreover, although informal groups, such as rotating and saving institution which are also dominant in Ethiopia (eg. Iquib), can meet the occasional financial need in many nations, they can't be a reliable and sustainable source of finance for income generating activities (Webster and Fidler, 1996; Khandker, 1998; Wolday, 2002).

Despite the fact that most of the poor are engaged in the informal sector, it is constrained by lack of sustainable finance. Micro-credit programs and MFIs are created to fill this gap. Ledgerwood (1999) evidenced that MFIs are institutions used to serve the financial needs of the poor who are engaged in the informal sector. He summarizes the following:

"Microfinance clients are typically self-employed, low income entrepreneurs in both urban and rural areas. Clients are often traders, street vendors, small farmers, service providers (hair dressers), artisans and small producers; such as black smiths and seamstresses."
(Ledgerwood, 1999:2).

Cognizant of the fact that MFI are institutionalized to serve the financial need of the informal sector, the question that one has to ask is; can access to financial service by the poor who are engaged in the informal sector, reduce poverty? If poverty is defined from the point of low levels of annual income, reducing poverty is raising average income levels beyond the poverty line. Those who aim to enable poor people, in particular who are engaged in small enterprises, to cross such a poverty line, have focused on provision of credit as one kind of development intervention (Johnson and Rogaly, 1997).

There are important roles played by MFIs in reducing poverty. In the first case credit creates an employment opportunities (Bekele, 1996). A World Bank study during the period 1985 to 1990 indicated that the number of poor people in the Sub-Saharan Africa has increased to 216 million, of which the largest segment is unemployed or self employed. In such countries there is a need for micro credit service to create employment opportunities through establishment of income generating activities.

According to Khandker (1998) there is a need for creation of wide spread employment opportunities, as one method of creating it is through provision of microfinance programs. These services are able to reach the poor at affordable cost and can thus help the poor become self-employed.

At enterprise level, microfinance services, particularly credit are said to have positive impact on increasing the poor's ownership of physical (productive) assets which increase the income earning capacity of poor entrepreneurs (Bekele, 1996). Also according to same author, credit can assist in raising the productivity and income of micro and small entrepreneurs. This is because; it

alleviates operational constraints such as usage of traditional and labour intensive equipment, incapability of taking advantages of market prices for their products and raw material inputs.

At household level microfinance service is said to have positive impact on household level variables such as: household income, household assets, education, nutrition and coping strategies (Getaneh, 2005). This is because of indirect impact of increase in household income generated from micro and small business activities. Also according to same author MF service plays a major role of empowering individuals, primarily to women, who comprise a majority of clients in many MFIs, with respect to increasing control over resources, increasing savings, self-esteem, orientation to wards the future, etc.

Pursuant to Nazrul (2009), there are proponents in favour of the “risk approach” of alleviating poverty. They also point out that unless people are protected against the risks, assets built up can get easily washed away by down ward shocks, nullifying the impact of “asset approach” programs.

As microfinance institutions have expanded to the provision of micro savings and micro insurance services, they can directly address the problem of vulnerability. Getaneh (2005), substantiated the argument that microfinance can potentially reduce vulnerability by helping the poor, who are engaged in micro and small enterprise, through diversifying their sources of household income, increase their savings, expand their options for credit, and improve household money management.

Finally, according to Johnson and Rogaly (1997) poverty can be understood as vulnerability to downward fluctuations in income. Such fluctuation may result from seasonal decline in employment for agricultural workers, illness, loss of assets etc. (Montgomery and Weiss, 2005). Interventions which can reduce



such vulnerability and protect livelihoods also reduce poverty (Johnson and Rogaly, 1997).

2.8 Impact of Microfinance from Global Experience

Evaluation of the impact of micro-enterprise lending programs indicates that such interventions have impact on social relations partly through their economic effects. Those who claimed such impacts raise the example that through empowering women and changing gender relations in the household and in the community will lead to progressive social change (Johnson and Rogaly, 1997).

According to same author, citing the research work of Hashemietal (1996), which assessed the effect of Grameen and BRAC programs on eight indicators of women's empowerment. These are mobility, economic security, ability to make small purchases, ability to make larger purchases, involvement in major household decisions, relative freedom from domination by the family, political and legal awareness and participation in public protests and political complaining. The study concluded that, on balance access to credit has enabled women to negotiate within the household to improve their position.

Also the fact depicted on Ledgerwood (1999), described about group based micro credit scheme operated by BRAC in Bangladesh was successful in reducing poverty as measured by increases in aggregate wealth of the members. Moreover, other impact study from Bank Rakyat Indonesia (BRI) reveals the fact that its borrowers have obtained net increase in their household income by 75% and net enterprise income by 93% (Webster and Fidler, 1996).

Share Microfinance Limited (SML), founded by Mr. M.Udaia Kumar, is one among many microfinance institutions operating in India. The impact of the program on reduction of poverty has been remarkable. Rao and Bavaiah

(2005:90-92), citing the research work undertaken by external experts on SML (SML annual report, 2003), summarized the main results of the study as follows.

- Three out of four (76.8%) at SML's mature clients have experienced significant reduction in their poverty over the past four years and half of them are no longer poor.
- 37% of the sampled mature clients who were below poverty line have come out of poverty and now they are non-poor.
- 64 % of these mature clients of SML have been very poor when they began using its microfinance services three to four years ago, while the remaining 36% had been moderately poor. Today, only 7.2 remain very poor while the majorities (56.8%) are moderately poor and a sizeable proportion (36%) have come completely out of poverty.
- Finally the conclusion is that there are many possible paths out of poverty, provided a poor household can get access to SML's microfinance services, then this has the potential of diversifying the source of income thereby increase income of the household. According to the study (80%) of mature clients witnessed increase in income levels.

Moreover, pursuant to the research work of Rao and Bavaiah (2005), on the impact SLM's microfinance service in Andhra Pradesh state of India, indicate that the poor are being helped by the SLM to be engaged into new economic activities. The study found that the income earned by beneficiaries through engaging in to new economic activities, with the financial assistance of Share Microfinance Limited (SML), contributes 58% to 90% of the total income. Further the study concluded that the beneficiaries obtained not only increased annual income but also reduced the inequalities in the distribution of annual income.

Khandker (1998), revealed the impact of three microfinance institutions namely Grameen Bank, BRAC, and RD-12, in creation of employment opportunities and reduction of poverty in Bangladesh during the year 1991/92. The survey was undertaken jointly by the Bangladesh Institute of Development Studies (BIDS) and the World Bank, According to the study "participation in micro credit program had a positive effect on per capita expenditure, although the effect was not statically significant for borrowing by men. In contrast, all of the measures of impact of borrowing by women were significant, and the impact on consumption was twice as great as it was for men" (khandkar, 1998:48).Also the same author argued that micro credit also affects socio-economic variables positively, including education, nutrition, fertility and contraception use.

Bekele (1996), discussed the experience of the Grameen Bank (GB). Like other microfinance institution, the pioneers have the main objective of extending financial facilities there by to raise the income earning capacity of the poor. An impact study on 800 borrowers of Grameen Bank conducted by the World Bank revealed that their income has increased by 28% as a result of participating in the credit program.

2.9 Impact of Microfinance from Case Studies in Ethiopia.

The idea of poverty reduction through microfinance service has generated enormous enthusiasms among donors and NGOs as an instrument capable of breaking the vicious circle through building productive assets and reducing the vulnerability of poor (Nazrul, 2009). KofiAnan; the UN secretary General until the end of 2006, supported the effectiveness of microfinance as an important instrument in the fight against poverty as follows: "It has been evidenced world-wide that microfinance helps the poor to overcome poverty, and not through charity. It is a financial system that serves the poor with financial services in a most effective and productive way" (Wolday, 2008:5). The objective of all microfinance institutions in Ethiopia is reducing poverty

through provision of sustainable financial service for the poor, but there have been very limited studies, which assessed the impact of microfinance institutions on poverty reduction. Some of the findings of the case studies on the impact of microfinance activities in Ethiopia are summarized as follows.

Despite lack of comprehensive research, the results of the few case studies revealed that access to finance for the poor reduce poverty. The fact depicted on the study conducted by the Development Bank of Ethiopia (DBE, 1999) supports the positive impact of microfinance service on the lives of the beneficiaries. Through accessing a formal successive round of loans, beneficiaries were able to build capital assets that are better than the control group members. Also the clients were directly benefiting from the program interims of increased employment opportunity and increased income when compared with their situation that existed prior of the loan and the control group (non-beneficiaries). The program created employment opportunity for an estimated total of 30247 individuals.

Borchgrevink, Helle-Valle, Woldehanna (2003:246) made a study on the impact of DECSI (Dedebit Credit and saving institution) on poverty alleviation in the case of central Tigray. In their research they made comparison between clients and non-clients on changes such as assets and living conditions, possibilities of covering emergency expenses and on consumption expenditure. The finding indicated that clients had on the average experienced improvements than non-clients, also clients are less vulnerable than the non clients. Accordingly, 57%, 51% and 54% from the sample client respondents had obtained improved income, asset and quality of food consumption respectively.

More over the same study Borchgrevink, Helle-Valle, and Woldehanna (2003:247) on the case of DECSI, revealed another success story of positive impact of microfinance service on the female clients. 69% of female clients

reported that their living conditions had improved over the last five years, while the corresponding figure for male was only 54%.

Similarly, Solomon (1996:317) made impact assessment in DebreBirhan town considering the case of Financing Micro Enterprises. According to the study, out of randomly taken 65 borrowers, about half (49%) of the sample households have experienced an increase in income levels. some of the triggers for such changes, according to the study are attributed to factors such as:

- I. The loan enabled a revival of an activity that used to be performed previously.
- II. It enabled to expand and/or diversify income sources.
- III. It was secured at relatively low interest rate.

Moreover the microfinance institution enjoyed a high loan recovery rate of 93%. According to the study, this rate is remarkable even when it is compared with the experience of the Malaysian Projek Ikatlar (78%), Nigeria (86%), India (90-95% and the Grammen Bank (98%).

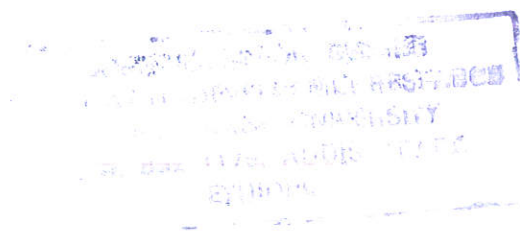
Meehan (1999) studies the impact of DECSI financial service on the lives of its clients, he found out that credit provision had a significant impact on household income, particularly in increasing agricultural production, through build up of production assets, particularly draught oxen and increasing the amount of land farmed by clients who were able to retrieve land previously rented out and farm it themselves. According to same study the female clients were able engage in trading activities which has previously been inaccessible to them because of lack of capital. The researcher came up with the idea that, the positive impact at household level appears to be highly dependent on continued access to credit on a regular basis and if access interrupted, the improvement in household income will be decreased.

2.10 Addis Credit and Saving's Institution Credit Delivery System

Among the 31 microfinance Institution operating in Ethiopia (NBE, 2009) Addis Credit and Saving Institution (AdCSI) is one, conducting its business of reduction of poverty and employment creation through financing the informal sector with in the territory of Addis Ababa city administration. The institution has been established in accordance with the proclamation No.40/88 in 2002 by six shareholders. The institution has ten branch offices at each sub-city level, 99 service delivery posts at each kebele level. As depicted on the 2002 policy document of the institution, the mission of it is “to promote micro and small enterprises to alleviate poverty and unemployment prevailing in Addis Ababa city administration territory through provision of sustainable financial and other related service with particular attention to women”. A brief description of the credit delivery system according to the 2002 policy document of the institution is summarized as follows:-

Unlike the targeting methodology of other institutions which are engaged in the micro financing activity such as the DBE and MTDPs, which prescribe a specific income limit (Mengistu, 1997; DBE, 1999 and Bekele, 1996), AdCSI has no such prescription of maximum income, but its target beneficiaries are: individuals who are resident of Addis Ababa and above 18 years old, graduates of TEVT, cooperatives, micro and small scale business operators or those ready to be engaged and groups.

The services provided by the institution have been done following a ten step service delivery cycle that begin from permission and service promotion to finally follow up, monitoring and performance reporting. But these are conducted in cooperation with administrative bodies such as: Micro and Small Enterprise Development Office, Youth and Women Association, Kebele Development Committee, Trade and Industry bureaus.



The loan process is very much decentralized and has been taking place in cooperation with the management of the respective stakeholders. Information dissemination about the different services provided by the institution and regarding also about: loan amount, interest rate, deeds and objectives of the institution, formation of groups and cooperatives so on, took place at different levels of the organizational structure. But those service delivery posts have a paramount role in this regard. Any individual, groups, cooperatives who want to have access the service have to register at the service delivery post. Depending on the amount of loan, the loan approval stage is made in a decentralized or delegated mode. Accordingly, for those loan requiring less than 50,000 birr, approval decision will be made at service post level and from birr 50,001 up to 100,000 the branch office will make the last decision. Finally, for loan amount which is greater than 100,000 the head office is responsible for making decision.

An obligatory deduction of 5% from the loan amount or the client is expected to deposit same percent of the loan which is called security saving prior to loan disbursement. But later on also the client is expected to deposit a specified sum of money monthly in a compulsory saving account, of which the client would not have access to it until the loan is fully repaid. This fund is deposited in the savings account to serve as a guarantee for loan default.

As depicted on the institution's policy document, (2002) no loan is extended to clients without collateral. For such purpose the AdCSI has been implementing different kinds of loan guarantee. This includes peer pressure collateral, group leader collateral, cross guarantee, personal guarantee, property collateral (house, vehicles, machines), saving deposit on banks, receivables, a postdated check endorsed to AdCSI, educational testimony with family cosigning, business collateral, insurance bond and legal institutions guarantee.

The loan repayments are made monthly. The loan term with in which the loan amount has to be settled, varied depending on the loan type. For example, for micro loan amount from Birr 5,000-10,000 the loan term is 30 months. Besides the above requirements, procedures and terms, there is a need of taking part in client training and orientation before taking a loan. For group/cooperative loanees, the training will be given for a period which is not less than 15 days and not more than a month within four contacts. But for individual loan clients, it is given not more than an hour. After receiving the training, the loan clients are expected to prepare a business plan containing information such as nature of the business, market competition, market share, capital requirement and income flow and so on.

CHAPTER THREE

METHODOLOGY

The study was conducted in Addis Ababa City. And the impact of the MFI was evaluated on all of the branches namely Arada, Yeka, Gulele, Akaki, Bole, Lideta, Nifassilk lafto, Kolfe, Addis ketema and kirkos.

The study was not based on the use of “Proxies” for impact but it was based directly on the beneficiaries of the program. The rationale of choosing the client oriented method of impact analysis is according to Ledgerwood (1999:51) “ If an MFI aiming at providing financial services to the poor to reduce their poverty, then the institution cannot take refuge in simply measuring how well it made services available. Because the stated end result of reducing poverty is fully measureable only in direct relationship to the lives of human being.”

And the research used the “before” “after” comparison of the beneficiaries’ socio economic position. To achieve the stated objectives of the research, different variables which manifest reduction of poverty or not was formulated. These are income, employment, food consumption expenditure, annual education expenditure and access, annual medical expenditure and access and asset possession (both capital and household assets). Extensive data was collected on these variables and an attempt was made to identify the magnitude of change on the variables before and after borrowing. More ever an attempt was made to test the significance of the variation before and after borrowing.

Moreover an attempt was made to test the significance of the variation before and after borrowing. Also, the research addressed whether there is significant difference between male and female beneficiaries regarding on these variables. Thus, various hypotheses were formulated and tested.

3.1 Sources of Data

The study used both primary and secondary sources of data. The primary source of data was the beneficiaries of all the branches of the institution. And secondary data was obtained from the records of the institution, journals, proceedings, bulletins, internet and various books.

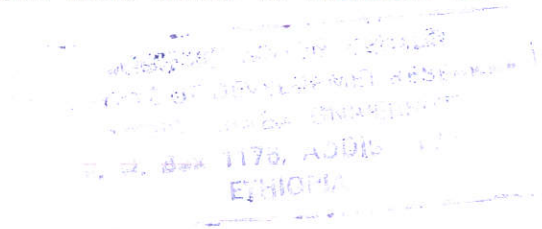
3.2 Methods of Data Collection Instruments

There are many factors to consider in choosing methods, but your decisions should be guided primarily by the aim of the research (Laws with harper and Marcus, 2003). So as I am not here engaged in search for one perfect technique, it is often best to use more than one technique within the investigation to triangulate the evidence that is collected. "Triangulation involves checking data with respondents and cross-checking with others to get different point of view of the same phenomenon. Careful use of triangulation helps to deal with the problems of the inherently un-trust worthy respondent."(Ledgerwood,1999:54).

As the essence of the research is to make impact assessment of credit on the socio-economic status of the beneficiaries, thus, to attain this objective of the research, extensive data was collected using structured interview, structured observation and focus group discussion. The structured interview was used to collect data from households on various dimension of impact.

3.2.1 Structured Interview

And before the interview guideline used in the actual research subjects, pilot testing was conducted. The aim of which is to increase the validity of the instrument. The general manager and business development manager took part in the pilot testing; finally the instrument was refined and completed, based on accommodating the suggestion which in turn was used to consolidate the instrument. Four enumerators were hired to conduct the interview and



they were trained for one day which was focused on: the objectives of the study; how to approach respondents, how record the responses and on detailed contents of the instrument.

3.2.2 Observation

The other method of primary data collection employed in this research was structured observation. The structured observation used to collect data on asset possession (both capital and productive assets). And it was conducted simultaneously with the interview schedule. For instance, while conducting the interview the enumerator was told about the purchase of an asset then the interviewer looked around to see if the asset was on sight accordingly filled up the observation checklist. The importance of which is crosschecking data to increase the validity of the data.

3.2.3 Focus Group Discussion

Finally, Focus Grouped Discussion (FGD) with the beneficiaries was made to identify; the satisfaction or complains on the service of the institution; problems they faced and for warded assort of recommendation. FGD was conducted on Arada, Yeka and Akake branches. A total of 10 focus groups were conducted, each focus group containing 7-8 beneficiaries. The groups were formed based on sex. This is because, if the female beneficiaries are gathered separately, it is likely that they will be free to talk than if they were put to together with the men beneficiaries.

The specific techniques were employed in recording the data was field notes, observational check list and tape recorder was used. This is due to the fact that, most important thing researchers have to do is record what they see, usually in field notes but sometimes on tape or film because anything not recorded is lost.

3.3 Method of Sampling

Multistage sampling method was employed. To ensure that samples represent the total population, objective sampling procedures must be adopted. The ideal case is to obtain a random sample in which all individuals in the original population have an equal chance of being chosen. Likewise, a random sample of five kebeles from each of the ten branches was selected. Accordingly a total of 50 kebeles were selected.

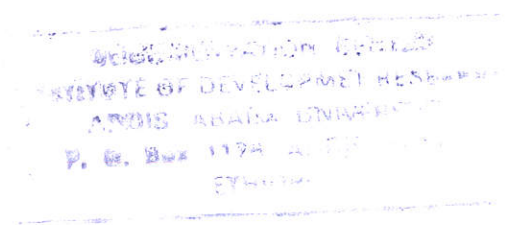
Then from the clients found in the sampled kebeles, purposively those who have been participating since 1997 E.C were selected as a sampling frame. One consideration to choose a sampling technique is the objective of the research under study. As the objective of this research is to make impact assessment of the service on the lives of the beneficiaries, there is a need for time gap. Because, to make impact assessment the length of time period of participation matter a lot.

Finally, the sample respondents were selected from the sampling frame randomly. Regarding the sample size five beneficiaries from each kebele were selected. Because the study focused on selecting samples from each area equally so that the research finding reflect the impact of the microfinance on all of its branches. Therefore, 25 beneficiaries from each branch and totally 250 beneficiaries were selected. Among 250 samples, 231 were valid. From these valid respondents 125 were female while 106 were male beneficiaries. Although enumerators attempted to convince respondents to respond to the interview, some of them were not cooperating to respond and the rest were not found in the area.

3.4 Method of Analysis

The primary data gathered through interview was analyzed through Statistical Package for Social Scientists (SPSS). As the main objective of the research is to compare those poverty indicating variables before and after borrowing so that to evaluate the role of the institution regarding poverty alleviation, both descriptive and inferential statistics were employed to analyze the data. The descriptive statistics were that of computation of the mean, percentages, and frequencies while inferential statistics of Wilcoxon signed ranks test and independent two sample t-test were employed.

The Wilcoxon signed ranks test was employed to evaluate the socio economic impacts of the program before and after borrowing. The test is designed to evaluate the difference between two treatments, using the data from a repeated-measure experiment. The two treatments in this research are without program participation (before borrowing) and with program participation (after borrowing). And to compare the male and female beneficiaries, two independent samples t-test was employed. The test used for evaluating whether there is significant difference between both sexes regarding on those socio economic variable after borrowing. For all tests a significant level of alpha 0.05 was employed throughout the study.



CHAPTER FOUR RESEARCH FINDINGS

4.1) SOCIO-DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

The essence of this research is to evaluate the provision of microfinance service of AdCSI towards reduction of poverty and job creation. And the findings of the research are based upon the following demographic setting.

Table 4.1 Number of respondents by sex, educational and marital status.

n= 231

Sex	Educational status	Marital status				Total
		Single	Married	Divorced	Windowed	
Female	Illiterate	1(3.4)	1(1.4)	1(11.1)	5(29.4)	8(6.4)
	Read and write only	1(3.4)	6(8.6)	4(44.4)	2(11.8)	13(10.4)
	Grade1-6 complete	1(3.4)	11(15.7)	1(11.1)	5(29.4)	18(14.4)
	Grade7-8 complete	1(3.4)	15(21.4)	-	-	16(12.8)
	Grade9-12 complete	15(51.7)	24(34.2)	1(11.1)	4(23.5)	44(35.2)
	Above grade12	10(34.5)	13(18.6)	2(22.2)	1(5.9)	26(20.8)
	Total	29(23.2)	70(56)	9(7.2)	17(13.6)	125(100)
Male	Illiterate	-	1(1.4)	-	-	1(0.9)
	Read and write only	-	5(6.7)	-	-	5(4.7)
	Grade1-6 complete	-	7(9.5)	-	1(100)	8(7.5)
	Grade7-8 complete	1(3.3)	8(10.8)	1(100)	-	10(9.4)
	Grade9-12 complete	12(40)	31(41.9)	-	-	43(40.6)
	Above grade12	17(56.7)	22(29.7)	-	-	39(36.8)
	Total	30(28.3)	74(69.8)	1(0.9)	1(0.9)	106(100)
Grand total		59(25.6)	144(62.3)	10(4.3)	18(7.8)	231(100)

Source: field survey

Note: Figures in parenthesis are percentages.

All the data are analyzed and presented in comparison form between the male and the female beneficiaries. The rationale of this is to provide the institution with information regarding its weakness and strength based on gender.

As it is revealed on table 4.1 majority of the beneficiaries are married (i.e. 144 or 62.3%) followed by single (59 or 25.6%), of the married respondents, 1.4% are illiterate, 12.5% have attained elementary education and 54.2% attained either grade 7-8 (junior) or secondary education. And from the total single beneficiaries, 3.4% are either illiterate or can read and write, 5.1% attained elementary and junior secondary education and 45.8% attained secondary education.

There is difference between female beneficiaries and male beneficiaries on their educational level or status. As the figures depicted on table 4.1, there are 8 female clients who are illiterate but only 1 for the male clients. The number of female clients who are above grade 12 are 26 whereas 39 for male clients. But the number of clients who attained secondary education is almost equal for both sexes and for the remaining educational levels the number of female clients is better.

Table 4.2 Frequency Distribution of beneficiaries by age group
n=231

Age group	Male		Female		Both Sexes	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
21-25	4	1.7	14	6.1	18	7.8
26-30	27	11.7	25	10.8	52	22.5
31-35	21	9.1	21	9.1	42	18.2
36-40	16	6.9	28	12.1	44	19
41-45	14	6.1	18	7.8	32	13.9
46-50	9	3.9	7	3	16	6.9
51-55	1	0.4	5	2.2	6	2.6
56-60	7	3	5	2.2	12	5.2
Above 60	7	3	2	0.9	9	3.9
Total	106		125		231	100

Source: field survey

As can be seen from table 4.2, the highest 52 (22.5%) number of beneficiaries are within the age group (26-30). And the majority of the clients (67.5%) are in the age group less or equal to 40. The implication of this is, the majority of the beneficiaries are young and are within the working age. Regarding classification of age based on gender, about 38.1% of females are in the age group of less or equal to 40 whereas out of the total male clients 29.4% are within this age group.

Table 4.3 Percentage Distribution of respondents' number of children with sex. n=231

Sex of respondents	Respondents' number of children				
	None	1-3	4-6	Above 6	Total
Female	51(22.1)	64 (27.7)	8(3.5)	2(0.9)	125(54.1)
Male	47(20.3)	53(22.9)	5(2.2)	1(0.4)	106(45.9)
Total	98(42.4)	117(50.6)	13(5.7)	3(1.3)	231(100)

Source: filed survey.

Note: all figures in parentheses are percentages.

As can be seen on table 4.3, out of the total sample size of n, 231 there are 125 (54.1%) female clients whereas 106 (45.9%) of the sample beneficiaries are male. Thus, it can be said that AdCSI microfinance service is more targeted towards serving the financial needs of women. The findings of the research support the argument that, most of the microfinance's objective is to empower women by increasing their economic position in society (Ledgerwood, 1999).

The same table revealed, 42.4% of the beneficiaries have no children, of which 22.1% are female while 20.3% are male. The majority of the beneficiaries (50.6%) have children one up to 3.

In each group female clients tends to have more children than the male counterparts. This finding is depicted on the table above. One evidence supporting the research finding is that in the modal class (containing children 1-3), the females are 27.7% while only 22.9% for male having same number of children. The finding is also consistent with the organization's objective of provision of financial service giving particular attention to women.

Table 4.4. Frequency Distribution of respondents by number of dependents.

No. of dependents	Before loan						After loan					
	Male		Female		Both sexes		Male		Female		Both sexes	
	F	%	F	%	F	%	F	%	F	%	F	%
None	34	14.7	45	19.5	79	34.2	7	3	12	5.2	19	8.2
1-3	52	22.5	54	23.4	106	45.9	69	29.9	67	29	136	58.9
4-6	15	6.5	20	8.6	35	15.1	25	10.8	40	17.3	65	28.1
>6	5	2.2	6	2.6	11	4.8	5	2.2	6	2.6	11	4.8
Total	106	45.9	125	54.1	231	100	106	45.9	125	54.1	231	100
Average	0.99		1.12		2.01		1.33		3.66		2.87	

Source: field survey

F= frequency

The researcher comes up with the finding that the beneficiaries are supporting more number of dependents after the loan. This finding is substantiated by the evidence revealed on table 4.4, for instance the number of beneficiaries who reported that they have no dependents before loan was 34.2% while the amount for this decreased to only 8.2% after loan and the number of beneficiaries who reported that they used to support 1-3 dependents before loan was 45.9% but raised to 58.9% after loan.

And the same thing is true for beneficiaries who support 4-6 dependants the reason for supporting increased number of dependents after loan may be attributed to increase in income from the activities financed by the loan.

When categorizing the number of dependents based on gender, female beneficiaries support more number of dependents compared with the male counterparts. For instance, after loan, the female beneficiaries were able to support 3.66 dependents on average while the male on average support 1.33 dependents.

4.2 Access, amount and trends of loan

4.2.1 Previous access to loan

According to Ledgerwood (1999), provision of micro credit is one way of increasing income and consequently reduce poverty level of beneficiaries through helping them to start up own micro business activity or expand the existing one. Also Khandker (1998); Webster and Fidler (1996) noted that lack of capital and savings make poor people not to be able to get the benefits of engaging in the micro and small scale activities. Despite such benefits of credit, the poor who are engaged in the informal sector are denied access to credit from the conventional financial institutions (Bekele, 1996; Solomon, 1996; Montgomery and Weiss, 2005). The findings of this research support the argument presented above.

The sample beneficiaries were asked whether they had access for credit from other financial sources before participating in AdCSI microfinance program and as revealed on table 4.5, the majority i.e. 82.3% of the beneficiaries were denied of access while only 17.7% of the sample beneficiaries had access.

Table 4.5 Frequency Distribution of previous access to loan.

Previous access of loan	Frequency	Percent
Yes	41	17.7
No	190	82.3
Total	213	100

Source: field survey

But of these beneficiaries who had previous access none of them had access from the conventional financial institution rather the sources were 65.9% from iquib and relatives and friends (34.1%).

4.2.2 Loan Access from AdCSI

One of the reason for deny of access to credit from the conventional financial institution is that of lack of collateral that needs to be offered to those institutions (Bekele, 1996; Montgomery and Weiss, 2005). As the majority of the poor don't have the collateral in order to access loan, microfinance service innovation has come to serve the financial needs of the poor with easy, affordable and diversified option for collateral (Khandker, 1998). These innovative approaches of securing loan are group/social collateral and third party. Also AdCSI is one among the MFIs in Ethiopia which make use of this new innovative approach. These innovative approaches make access easy to the poor. The respondents were asked about the collateral type they offered to AdCSI in order to have access to loan.

Table 4.6 Frequency Distribution of collateral offered. n= 231

Types of collateral offered	Description	Female	Male	Total
	Group/social	15(6.5)	11(4.8)	26(11.3)
	Third party/wahis	87(37.6)	67(29)	154(66.6)
	Property	23(10)	28(12.1)	51(22.1)
Total		125	106	231(100)

Source: filed survey.

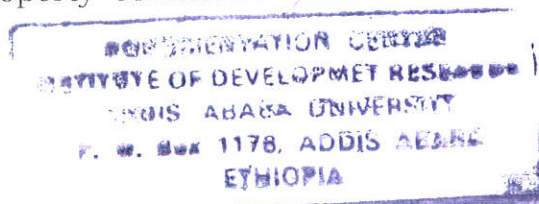
Note: figures in parenthesis are percentages.

The finding of the research on table 4.6 indicates that majority of the beneficiaries (79.9%) use the innovative approaches of securing loan, of this 66.6% offered third party (wahis) guarantee and 11.3% offered social /group collateral. Only 22.1% of the beneficiaries were able to provide property collateral. Thus, it can be said that AdCSI is serving the financial needs of those poor who can't provide property collateral to the conventional financial institutions as a result they used to be denied of access to credit that made them previously not to be able to get the benefits of engaging in the micro and small scale activities.

In this study 10 focus groups were held with a range of people and the majority agreed on the importance of these innovative approaches of securing loan other than property collateral. The researcher came up with the finding that almost all of the focus groups mentioned that they are denied access from the conventional financial institutions due to lack of property collateral and they strongly like the new ways of securing loan such as group or social collateral and third party (wahis) guarantee.

The majority of the focus groups said, they would not be able to get the benefits from their micro and small scale activities if there was no such ways of securing loan other than property collateral. Thus, most of the focus groups agreed that AdCSI has created easy access to loan, which is an important step in improving the quality of life for their communities. Finally, these approaches of securing loan will help AdCSI to meet the goal that "MFIs need to supply services that fill the gaps and integrate the un-served groups in to the market" (Ledgerwood, 1999).

Only one of the focus group, which is conducted with the beneficiaries of Akaki branch, complained on the procedure followed by the institution for securing loan. The group noted that, they have been paying unfair expenses and wasting their time while offering property collateral. Because the institution requires



them whenever they took additional rounds of loan, to bring new letter, which proves the property would not be put into sell unless the loanees fully settled their debts. This made them to be exposed to unfair expenses such as fee paid to the sub-city administration, transport expenses and even wastage of their precious time.

The beneficiaries were asked about the number of times they were able to access loan from AdCSI. As depicted on table 4.7, all of the beneficiaries were able to access loan which is three times or more than three times. The majority of the beneficiaries (55%) could have access to loan from AdCSI for three times but the number decreased to 30.7% and 14.3% for 4th and more than four rounds of loan respectively. The assumption is that, the more the number of rounds of loan, the more would be the benefits obtained in terms of increased income and employment opportunity on the part of the beneficiaries. For instance, pursuant to a study made by Development Bank of Ethiopia DBE (1999) came up with the finding that, due to assessing formal, successive rounds of loan, beneficiaries were able to build capital assets and they were directly benefiting from increased employment opportunity and increased Income.

Table 4.7. Frequency distribution of the number of access of loan. n= 231

Sex	For how many rounds did you take loan?			Total
	Third	Forth	>Four	
Male	61(26.4)	33(14.3)	12(5.2)	106
Female	66(28.6)	38(16.4)	21(9.1)	125
Total	127(55)	71(30.7)	33(14.3)	231

Source: field survey.

Note: figures in parenthesis are percentages.

The finding of this research is that the majority of the beneficiaries were given successive loan which will help the organization to meet its objective of reduction of poverty and employment creation.

4.2.3 Loan amount, trend and sufficiency

Table 4.8 indicates the size of loan both firstly and lastly taken. As the figures depicted, the average first loan taken by both sexes was 4813.85 ETB but the average lastly taken micro credit by both sex grown greatly to 17,996 ETB. The implication of this is that beneficiaries are engaged in business activities which require more capital than their prior situation also from the part of the institution it insures that, it is providing loan whose amount is growing whenever the clients repay the previously taken. But compared with the male beneficiaries the average loan taken by the female clients is less. This implies that the female are engaged in business activities which require small capital, this in turn will have an impact on the level of profit earned from the business.

Table 4.8 Respondents loan size. n=231

	Female (mean)	Male (mean)	Total (mean)
First taken loan (ETB).	4053.6	6031.13	4813.85
Last taken loan (ETB).	13,152	23,708	17,996

Source: field survey

The beneficiaries were asked about the sufficiency of loan that is disbursed to run their activities. Accordingly, table 4.9 revealed that the number of respondents who said, the loan amount is not sufficient to run their activities are almost equal with that number of respondents who said, the loan disbursed to them is sufficient to run their business activities.

This number is small when compared with the bulk (83%) of the sample cases, in a study made by (Solomon, 1996) in titled “credit to the poor households, the case of Financing Micro–Enterprises in Debre Berhan Town”. In this study majority of the beneficiaries claimed that the loan amount is not sufficient.

Table 4.9. Sufficiency of loan disbursed. n= 231

Indicators	Loan sufficiency		
	Female	Male	Total
Yes	64(27.7)	54(23.4)	118(51.1)
No	61(26.4)	52(22.5)	113(48.9)

Source: field survey.

Note: figures in parenthesis are percentages.

The same question was raised during FGD and half of the focus groups mentioned the issue of lack of sufficiency of the loan which is disbursed to them to run their business activities. However, even almost half of the borrowers claimed insufficiency of loan amount, Hurley (1990), argued that even small loans can have dramatic and transforming influence on the lives of the poor people.

4.3 Loan repayment status of the respondents

In the 1990s MF was marked by a paradigm shift from the provision of subsidized loan towards the building up of sustainable financial institutions to serve the poor (Robinson, 2001). And this financial self-sufficiency and institutional sustainability could only be reached through insuring high percentage of loan collection besides other things (Degefe, 2009). The figures depicted on table 4.10, the AdCSI is enjoying high loan collection. For instance, the beneficiaries who are not repaying according to the schedule are only 10.4% from the total sampled beneficiaries.

And 47% of the beneficiaries already settled their debt, while the majority (i.e.) 69.3% are repaying according to the schedule. It can be said that AdCSI is on the way of building sustainable institution through insuring high rate of loan collection.

Table 4.10 Frequency distribution of loan repayment status.

n=231

	Indicators	Female	Male	Total
Loan repayment status	Fully repaid	25(10.8)	22(9.5)	47(20.3)
	Repaying	90(39)	70(30.3)	160(69.3)
	Not Repaying	10(4.3)	14(6.1)	24(10.4)
Total		125	106	231(100)

Source: field survey.

Note: all figures in parenthesis are percentages.

Those who are not repaying according to the schedule were asked about what were their problems. As shown on table 4.11, the majority (70.8%) told that market fluctuation such as price fluctuation of inputs and poor sales are among the problems they are faced with, while 16.7% reported that the asset they were using to generate income had been lost, for instance, death of cows for those who earn income through selling milk. The remaining beneficiaries of 8.3% and 4.2% put forward reasons as illness of family members and inconvenience of repayment period respectively.



Table 4.11 Frequency Distribution of reasons for non-repayment. valid n= 24

Reasons for non repayment	Description	Frequency	Percent
	Illness/death of family members.	2	8.3
	Theft/loss of asset	4	16.7
	Market related problems.	17	70.8
	Inconveniency of repayment period.	1	4.2
Total		24	100

Source: field survey.

4.4) Clients' opinion about frequency of repayment, interest rate on lending and prompt loan issuance.

Beneficiaries of the AdCSI credit scheme are expected to make loan repayment every month. A question that one should ask is; "is the frequently of repayment suitable to the beneficiaries?". Because a payment schedule which doesn't fit the income earning duration will affect the loan collection rate and affect the business performance of the clients. So, there is a need for studying such nature of income earning duration to decide which kind of repayment period best fits clients.

Table 4.12 Frequency Distribution of interest rate on lending and prompt loan issuance. n= 231

Description	Indicators	Frequency	Percent
Frequency of repayment comfort you?	Yes	209	90.4
	No	22	9.6
Interest rate on lending	High	51	22.1
	Moderate	147	63.6
	Low	4	1.7
	Don't now	29	12.6
Prompt loan issuance	Yes	220	95.2
	No	11	4.8

Source: filed survey.

The result of the study as depicted on table 4.12, the majority of clients (90.4%) have said, the repayment frequency or rate is suitable for them while 22 clients or 9.6% said the repayment period is not suitable.

There was fixation of interest rate ceilings on loan by NBE (Wolday 2008), but it is lifted by directives no. MFI 11/98, as a result of this, each MFI in Ethiopia fixes their respective interest rate. And the Board of Directors of each micro financing institution is the concerned body. Pursuant to Wolday (2002), the lending interest rate on loan of Ethiopian MFIs varies between 12.5% - 25%. More- over he argues that the lending interest rate of MFIs in Ethiopia is low to cover the operational and financial cost of the microfinance institutions. This research has made an attempted to evaluate the attitude of clients towards the interest rate of AdCSI on lending.

As can be seen on table 4.12, most of the clients (63.6%) reported that the lending interest rate as moderate, while 22.1% noted that the rate as high. But, 12.6% or 29 of the sample respondents said they don't have any information on

lending interest rate of the institution. Thus, there is a need for client orientation service which can more address the clients than before.

Also the respondents were asked whether the loan issuance process takes more time or is it done promptly. As can be seen on table 4.12, almost all of the respondents (95.2%) said the process as short and only insignificant number i.e 4.8% said the process as long and fading. The same question was raised for discussion during the FGD and almost all of the focus groups agreed that the loan issuing process is short and satisfactory. And told that, this is one of the strong side of the institution which needs to be further developed.

4.5) Respondents' saving amount

This means the institutions able to mobilize saving per individual averagely amounted 143.8 ETB from voluntary savings, and 22.7 from compulsory savings.

Microfinance institutions are designed not only extending loan but also saving service. In order to have the desired impact on poverty, there is a need for increasing the capacity and awareness of the poor towards saving. Because, if we look from the point of the poor, saving services enable them to accumulate very small surplus to be used at a later date to respond to emergencies (Webster and Fidler, 1996). As poverty can be understood as vulnerability to downward fluctuations in income, interventions which can reduce such vulnerability and protect livelihoods also reduce poverty (Johnson and Rogaly, 1997).

Such interventions like MFI reduce the risk faced by the poor through, among other things, provision of saving service. And saving is also important from the point of the MFI itself, because savings are the key to MFIs success for achieving full financial self-sufficiency and in turn insure institutional sustainability because they provide a sustainable local, cheap source of loan funds for the MFIs.

Therefore, there is a need for mobilizing savings on the part of the MFI. The finding of the research revealed that the mean total voluntary saving is 143.8 ETB and the mean voluntary saving for female beneficiaries is 17.26 ETB while 174.70 ETB for the male. As also shown on table 4.13, the institution is able to mobilize saving (voluntary) from 199 beneficiaries out of the total sampled respondents. Accordingly, total mean voluntary saving is 143.8 ETB. This means the institution is able mobilize savings per individual averagely amounted 143.8 ETB from voluntary savings.

And the beneficiaries were asked if they have saving with other financial institutions other than AdCSI. As can be seen on table 4.13, out of the total beneficiaries, 193 of the sampled respondents have savings with other financial institutions.

Table 4.13 Respondents' savings (mean).

	Female(mean)	Male (mean)	Total(mean)
Voluntary saving(ETB).(n=199)	117.26	174.7	143.8
Compulsory savings (ETB).(n=231).	17.28	29.03	22.7
Saving from other financial institution. (n=193)	3398.3	4351.50	3813.2

Source: field survey.

The total amount of mean saving with other financial institutions (banks, iquib) is 3813.2 ETB, this means AdCSI would have mobilized on average from an individual 3813.20ETB if there was a study made by the institution to identify the triggers for this so as to come up with a solution to increase the saving mobilization capacity. Some of the triggers as noted by the respondents attribute to: the majority (88.1%) prefer to save in banks while 9.3% want to

save in quip and the remaining 2.6% noted that lack of encouragement given from the institution are the factors.

Table 4.14. Respondents' saving from other financial institutions. (n= 193)

	Description	Frequency	Percent
Reasons for having saving other than AdCSI.	Prefer to save in quip.	18	9.3
	Prefer to save in banks	170	88.1
	The institution doesn't give encouragement to save.	5	2.6
Total		193	100

Source: Field survey.

The researcher raised the question during FGD and the beneficiaries noted that, they prefer to save their majority sums in banks and quip is because they trust formal banks especially government owned banks besides the institution has poor public image or the offices are with weird structure. And also the majority of the focus groups mentioned that the voluntary saving with AdCSI is not of easy access. They noted as, unlike banks whose saving products are easily accessible, the institution's voluntary saving product takes several days to access the funds.

The same question was raised in the interview and the majority (i.e. 85.3% out of 231) said that there is lack of possibility of withdrawing funds from the voluntary saving account in emergency cases, as the process takes several days. The implication here is that the performance of the program in the area of saving mobilization is not satisfactory and there is a need for a lot of work to be done in this respect.



And one finding of this research was that of lack of adequacy of loan given to beneficiaries (found on table 4.9). Almost half of the beneficiaries noted that the amount of loan disbursed to them were not sufficient. But to fill this gap, one of the local, cheap source of fund is mobilization of saving. Thus, more should be done in this part of the program.

Other important thing that is of worth mentioning in relation with saving is that there is difference between male beneficiaries with that of the female beneficiaries on the amount of saving. For instance, as shown on table 4.13, the mean voluntary saving for females is 117.26 ETB while 143.8 is the mean voluntary saving for males. Accordingly if we see the amount of saving with other financial institutions, on table 4.13, the same thing one can observe. This may be partly attributed due to the fact that men have relatively smaller number of dependents than women. This finding is already discussed and found on table 4.4. Higher number of dependents resulted in higher consumption expenditure resulting in lower amount of saving. This may be the reason why the female beneficiaries have lower saving amount when compared with the male counterparts.

4.6) Respondents' opinion on the trend and interest rate of saving.

Except a 10% interest rate on consumption and housing loan. It has two types of interest rate: 4.5 % interest on saving and 9% on lending. Interest rate ceilings on loans charged by MFIs, were lifted by directives No. MFI 11/98, which reads, "the interest rate to be charged on loans and advance extended by a micro financing institution shall be determined by the Board of Directors of each micro financing institutions", on the other hand minimum is set for the interest that can be paid to depositors. According to directive No. /13/2002), it reads: "the minimum interest rate that shall be paid per annum by microfinance institutions on saving and time deposit shall be 3% ." But as mentioned above AdCSI paid 4.5% interest on saving account which is higher than the minimum prescribed by the law.

The beneficiaries were asked about their opinion on the interest rate paid by the institution on their saving (voluntary) account. As depicted on table 4.15, the majority (57.6%) said that the interest rate on saving is greater than the market rate while small number of beneficiaries, (3.9%) complained that the interest rate is less than the market rate. In spite of the training and client orientation programs given by the institution, still 38.5% of the beneficiaries said they don't have the information on saving interest rate. The implication of this finding is that the institution should work more to create adequate knowledge regarding the service provided by it.

Table 4.15. Percentage Distribution of respondents' opinion on the trend and interest rate of saving. n= 231

Description	Indicators	Frequency	Percent
Interest rate on saving	Less than the market rate.	9	3.9
	Greater than the market rate.	133	57.6
	Have no information	89	38.5
Trend of saving compared with before loan	Decreased.	3	1.3
	Stayed same.	64	27.7
	Increased.	164	71

Source: filed survey.

According to wolday (2008), the proliferation of those microfinance institutions which can mobilize or pool small sums of the poor are a recent phenomenon, which is followed with the issuance of the first MF legislation in 1996 (proclamation 40/96). In order to have the desired impact on poverty, MFI should work in a way that can increase the saving capacity of the poor to a

higher level. Because one dimension of poverty is that of risk and vulnerability to down ward fluctuations in income, interventions such as MFI, which can reduce such vulnerability through increasing the capacity of saving, also can reduce poverty.

As shown on table 4.15, beneficiaries were asked about their trend of monthly saving after loan when compared with their capacity of saving before program participation. Most of them (71%) said that they are able to save more than they could save before participating in the program whereas 27.7% of the beneficiaries reported that there is no difference between the trends of saving before program participation compared with its trend after program participation.

Insignificant number of beneficiaries (1.3%) out of the sampled respondents noted that their monthly saving trend has decreased after participating, when it is compared with monthly saving before participating in the program. As most of the beneficiaries are able to save more than their capacity of saving before loan, the next logical question one has to raise is that of the source of saving.

Only if the amount of saving has come from the business activity financed by the loan, then only, one can say program participation increase capacity of saving to its beneficiaries. This issue had been raised both during FGD and interview. Accordingly, almost all of the focus groups said that their source of saving is from business profit which is financed by the loan. Also the finding from interview schedule substantiates the above finding as 90.5% of the beneficiaries said their sources for saving is from business profit which is financed by loan, while only 9.5% said their source of saving is other than from business profit financed by loan.

4.7) Purpose of saving

As depicted in table 4.16 the majority (54.6%) wanted their saving to assist them in emergency cases followed by 16.9% and 16% for the purpose of business expansion and for safety of cash respectively. The implication of this research finding is that the beneficiaries want a saving service which allowed them to access their funds in the voluntary saving account promptly, as 54.6% (the majority) wanted to save for the purpose of emergency cases. Therefore, in order to mobilize larger savings from its clients the institution has to create a procedure which allow its clients to have prompt access to their voluntary account whenever the need arises. This may be one approach that should be adopted to decrease the existing strong competition for saving from other financial institution such as banks and iquib.

Table 4.16 .Frequency distribution of purpose of saving. n=231

No	Purpose of saving	Frequency	Percent
1	For loan repayment.	10	4.3
2	For safety of cash.	37	16
3	To buy house hold assets	7	3.1
4	To withdraw during emergency.	126	54.6
5	For business expansion	39	16.9
6	To engage in a new additional business activity	1	0.4
7	For items 2 and 6 above	1	0.4
8	For items 5,6 and 7 above	1	0.4
9	For items 1 and 4 above	6	2.6
10	For items 1 and 2 above	2	0.9
11	For items 6 and 4 above	1	0.4
	Total	231	100

Source: Filed survey.

But the existing procedure doesn't allow easy access to the saving account (voluntary). Thus, there is a lot to be done to replace the existing procedure with a new one, which allows accessing funds from voluntary accounts as promptly as possible.

4.8) Socio Economic Impact of Microfinance

4.8.1) Impact of Microfinance on Income of Beneficiaries

According to Khadker (1998) and Webster and Filder (1996), lack of capital and savings make poor people not be able to get the benefits of engaging in the micro and small scale activities. The benefits pursuant to Ledgerwood (1999) are, through the micro credit obtained entrepreneurs startup their own business, as a result they will increase their income and consequently reduce their level of poverty.

Similarly the prime objective of the program is to improve income levels through provision of credit and other financial service in turn to alleviate poverty and unemployment prevailing in Addis Ababa city administration territory. The result of the study as depicted on table 4.17, 96.1% or 222 beneficiaries of the program are benefiting from increased income, of this 75.3% reported that their income has increased significantly when it is compared with their income before participating in the program. And the remaining 20.8% said there is slight increment of income after participating in the program. Insignificant number of beneficiaries (2.2%) and (1.7%) reported that there is no change and decrement in income respectively.

After seeing this positive impact of credit on the beneficiaries' income a rational question one has to ask is whether the increased income of beneficiaries is due to the credit taken from the institution. To address this question, respondents were asked about the reason for such positive changes in income, the majority (69.4%) of respondents told that it is due to the loan which enabled them start

up own, new business activity while 12.1% of them said it is due to the credit from AdCSI which is secured at relatively low interest rate when it is compared with credit from the informal finance sources which charges exorbitant interest rate in turn nullifying the benefits obtained from the business. 11.3 % and 7.2% of them said, it is due to business expansion and business diversification as a result of loan access respectively.

When we compare the finding of this study with similar case studies, 96.1% income improvement is greater achievement. For instance, the study made by Solomon (1996), in titled "Credit to Poor Households: the case of Financing Micro Enterprises in the Debre Berhan Town" showed that, out of a randomly taken 65 borrowers, about half (49%) of them experienced an increase in income levels.

Other study made by Borchgrevink, Helle-valle, woldehanna (2003) on the impact of DECSI on poverty reduction in the case of central Tigray, 57% of the sample clients had obtained improved income.

And if we see a research made on the impact of Share Microfinance Limited (SML) of India on the reduction of poverty, the result of the research indicated that 80% of mature clients witnessed increase in come levels. Thus, compared with these case studies, the impact of AdCSI in raising income of its clients is by far greater.(See also Box-1.A case of successful client as illustrative case).

Table 4.17 Frequency distribution of impact of AdCSI on income of beneficiaries.

Description	Indicators	Female	Male	Total
Income improvement After loan n= 231	Increased significantly	96(41.5)	78(33.8)	174(75.3)
	Increased slightly	24(10.4)	24(10.4)	48(20.8)
	Stayed same	2(0.9)	3(1.3)	5(2.2)
	Decreased	3(1.3)	1(0.4)	4(1.7)
Reason for positives Changes in income After loan. Valid n= 222	Start up new business	75(33.8)	79(35.6)	154(69.4)
	Business expansion	10(4.5)	15(6.8)	25(11.3)
	Business diversification	5(2.3)	11(4.9)	16(7.2)
	The loan is secured at relatively low interest rate.	13(5.8)	14(6.3)	27(12.1)
Average income per month. n=231	Before loan (ETB)	814.8	918.6	-
	After loan (ETB)	1834.8	2157.1	-
Reason for no change and decrement. Valid n=9	Indebted because of credit	-	-	-
	I have been sick.	1(11.1)	-	1(11.1)
	The household members being sick.	-	-	-
	Poor sales	3(33.3)	5(55.6)	8(88.9)

Source: field survey.

Note: figures in parentheses are percentages.

Box -1 Case history of successful client

An interesting case of a successful borrower in terms of increasing income is Mr.Yohannes webshet aged 41, married and father of two children. He is from Arada subcity, kebele , 04/07/08. Before the loan, he used to work in a firm which is engaged in the business of making written advertising such as banner with monthly salary of 400 ETB.

In 1997, he borrowed 2,000 ETB from AdCSI for the first time, offering guarantee of salaried person (third party guarantee). He borrowed the money for the purpose of providing shower service as his residence is in front of a local football playing field but the field was used by the government for the construction of condominium houses. This time he decided to open a small advertising firm using his skills. Following on the repayment of the first loan, he became able to take 5,000 ETB and 30,000 ETB successive loans, because he found good market for his service.

Now his studio is in his residence but he opened office on a rented premise. Using the additional credit he bought productive assets such as drill machine and gig so (a machine used to make shape) which is to be used in the advertising work.

As he noted, the main reason which prohibited him from earning higher income was lack of credit to purchase income generating assets. After getting successive loan from the institution he is now earning monthly income of 4,500-5,000ETB. And he is able to create employment opportunity for 9 people. Monthly he saves 300 ETB in his voluntary account. Yohanness in now in a better position to meet not only basic material needs of his family but also capable of using public services such as schooling,, health and other social services.

Source: interview -2010

On the other side, insignificant number (2.2% and 1.7%) of the clients said their income has no change and decreased respectively.

According to them the reason is attributed to: sickness (11.1%) and poor sales (88.9%).

Table 4.18. Frequency Distribution of respondents' income. n=231

Monthly income(ETB)	Before Loan						After Loan					
	Male		Female		Both sexes		Male		Female		Both sexes	
	f	%	f	%	f	%	f	%	f	%	f	%
≤500	27	11.7	45	19.5	72	31.2	0	0	1	0.4	1	0.4
501-1000	55	23.8	59	25.5	114	49.3	22	9.5	41	17.7	63	27.2
1001-1500	12	5.2	7	3	19	8.2	23	10	21	9.1	44	19.1
1501-2000	6	2.6	10	4.3	16	6.9	22	9.5	33	14.3	55	23.8
2001-2500	5	2.2	2	0.9	7	3.1	9	3.9	5	2.2	14	6.1
2501-3000	1	0.4	2	0.9	3	1.3	18	7.8	10	4.3	28	12.1
>3001	0	0	0	0	0	0	12	5.2	14	6.1	26	11.3
Total	106	45.9	125	54.1	231	100	106	45.9	125	54.1	231	100

Note: f=frequency

Source: Field Survey

As can be seen on table 4.18, 31.2% of the beneficiaries income is less than or equal to 500 ETB which cannot fulfill the basic need. But this number decreased to only 1(0.4%). That means, after program participation, there is only one individual whose income is equal or less than 500ETB. The numbers of respondents who reported a monthly income of less than 1001ETB were 80.5% before loan whereas after loan the number decreased to 27.6%.

And before the intervention, the number of beneficiaries who said their income is greater than 1001 ETB were only 45(19.5%) but the number of beneficiaries who earn a monthly income of greater than 1001 ETB increased to 167(72.4%). Thus, the credit scheme of AdCSI has positive impact on the

beneficiaries' income. And to know whether there is significant variation in mean income after program participation, Wilcoxon signed ranks test was employed. This test is employed to decide whether the data provided evidences that the provision of credit had significant impact on income improvement.

Ho: Average monthly income before loan=Average monthly income after loan.

H₁: Average monthly income before loan $\neq$ Average monthly income after loan.

Table 4.19 Wilcoxon signed rank tests result for income of beneficiaries before and after loan.

Ranks	N	Mean rank	Sum of Ranks	Z-value	Sig.	Z-tabulated
Negative Ranks	5 ^a	15.20	76	-12.962	0.00	1.96
Positive Ranks	221 ^b	115.72	25,575			
Ties	5 ^c					
Total	231					

Source: Field survey

The test result of the Wilcoxon-test, show a significant increase in average monthly income following program participation, $T=76$, $P<0.05$, with the ranks for increases totaling 25,575 and the ranks for decreases totaling 76. Therefore, since $P<0.05$, we reject the null hypothesis (H₀) and concluded that borrowing will increase income.

- Monthly income after loan < Monthly income before loan.
- Monthly income after loan > Monthly income before loan.
- Monthly income after loan = Monthly income before loan.

To compare the impact of borrowing on men and women beneficiaries' income, independent two sample t-test was employed.

Ho: Mean monthly income for male after loan = mean monthly income for female after loan.

H1= Mean monthly income for male after loan # mean monthly income for female after loan.

Table 4.20. T-test results for deference in monthly income of male and female beneficiaries after loan.

Sex	N	Mean	Std.deviation	Mean difference	Std error	T-value	Sig.	df
Male	106	2157.1	1259.7	322.3	148.1	2.176	0.031	229
Female	125	1834.8	990.2					

Source: Field Survey

The result of the T-test as shown on table 4.20, there is a significant difference in income between men and female beneficiaries after loan. The difference was significant, $t(229) = 2.176$, $P < 0.05$. Since $P < 0.05$, we reject the null hypothesis (Ho) and concluded that the income of male beneficiaries is significantly greater than the female beneficiaries after loan. Thus, borrowing has greater impact on raising income of the male beneficiaries.

4.8.2) Impact of AdCSI on Employment Creation

The causes of poverty in Sub-Saharan Africa identified by the World Bank's poverty Task force (World Bank, 1996) are many, and inadequate access to employment opportunity is one among them.

According to wolday (2008), the existence of high unemployment rate is among the cause of poverty in Ethiopia as well. Moreover, the objective under the PASDEP is the development of MFIs to alleviate urban and rural poverty through employment creation in the informal sector (MOFED, 2006). Thus, as unemployment is one of the causes of poverty, the impact assessment of AdCSI on poverty reduction should be evaluated from the point of employment creation.

Table 4.21 Frequency distribution of respondents' employment types before loan. n=231

Employment types before loan	Frequency	Percent
Urban Farming	5	2.2
In school	2	0.9
Trade	103	44.6
Informal wage labor	15	6.5
Formal employee	16	6.9
Unemployed but have some education	75	32.4
Unemployed but graduated from college	10	4.3
Herding and animal fattening	5	2.2
Total	231	100

Source: Field Survey

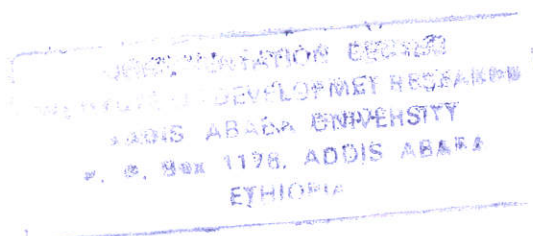
As shown on table 4.21, the survey result revealed that 87(36.7%) of the respondents were unemployed before joining the program where as 144(62.4%) were employed in a variety of economic activities. Thus, this result indicates the program's positives contribution towards creating employment opportunities for the unemployed.

Table 4.22 Frequency Distribution of respondents by the type of labor they use.
n=231

Types of labor used	Before loan		After loan	
	Frequency	Percent	Frequency	Percent
Yourself	181	78.4	67	29
Family numbers and your self	22	9.5	53	22.9
Hired labor, family members and yourself	4	1.7	33	14.3
Hired labor and yourself	24	10.4	78	33.8
Total	231	100	231	100

Source: field survey

Besides the creation of job opportunities for direct program participants, the credit service of AdCSI is expected to generate employment opportunities for their family members and hired labor. As can be seen on table 4.22, 181 (78.4%) of respondents had no helper in their business activity before loan, this figure decreased to 29%(67) after loan. It means after loan only 29% of the respondents use "him/herself" type of labor in their business. Before loan only 10.4% of the respondents used hired labor but after loan 33.8% use hired labor.



There were 1.7% of respondents who use, “hired labor, family members and him/herself” before loan in their business activity but this figure increased to 14.3% after loan. Such result revealed that the program not only created employment opportunity to its clients but indirectly, the program has created some employment opportunities to family members of the clients and to some other hired labor.

4.8.2.1 Beneficiaries and Activities Financed

Table 4.25 Frequency Distribution of employment areas after loan. n=231

Types of activates financed	Frequency	Percent
Metal work	6	2.6
Tailoring	3	1.3
Animal fattening	5	2.2
Animal rearing	10	4.3
Petty trade	8	3.5
Hair dressing	5	2.2
Food processing*	35	15.1
Vegetable and fruit retailing	10	4.3
Garment shops	3	1.3
Small restaurant	3	1.3
Wood work	20	8.6
Shop	70	30.3
Poultry raising	16	6.9
Electric equipment production and repair	2	0.9
Grains retailing	3	1.3
Secretarial service	6	2.6

Garage	2	0.9
Small café	3	1.3
Weaving	3	1.3
Urban farming	8	3.5
Others	10	4.3
Total	231	100

Source: Field survey.

Food processing* includes: injera, bread, cake and biscuit making.

Others* includes: Small bar, Retailer of religious equipment, Décor house, Computer training center, Photographing, Advertising firm, Consultant, Juice house, House renting and Film renting.

The mission of AdCSI is to promote micro and small enterprise to alleviate poverty and unemployment prevailing in the Addis Ababa city.

A total of 23,667 beneficiaries were covered by the program during the year 2002. The program incorporates various micro and small enterprise activities including petty trading, weaving, tailoring, injera and bread making, wood work, metal work, hairdressing, small scale dairy, sheep and cattle fattening, vegetable production, agriculture, dry waste disposal and so on.

And out of the sample beneficiaries 70(30.3%) are engaged in the business of shop. Food processing (including injera, bread, cake and biscuit) and wood work ranking second and third constitutes 15.1%, 8.6% of the total sampled beneficiaries respectively. Poultry- raising ranking forth, constitutes 6.9% of the sampled beneficiaries. Even though there is provision of micro and small loans to a wide range of micro and small business activities, greater number of clients is engaged in the business of shop. If this trend increases, it may result

in poor loan portfolio for the MFI which in turn affects the loan collection rate and then may threaten the sustainability of the institution.

4.8.3 Impact of AdCSI on Improving Asset Possession of Beneficiaries

Credit is usually viewed in terms of its ability to help people break away from poverty trap through allowing the poor acquire productive capital assets to improve their capacity to generate income, savings and investment. The income earning capacity of the entrepreneurs in the informal sector is low because they lack income generating assets. One method of transferring economic resources to the poor is through provision of financial services with which a poor person can buy anything helpful for generating income (Bekele, 1996; Nazrul, 2009). Therefore, as capital assets are the key for generating income, the impact assessment of credit on reducing poverty should be evaluated from the point of increasing assets possession of clients (both capital and household assts).

This finding of the research revealed that out of the sample beneficiaries, the majority (64.1%) noted that they purchased productive assets using the credit while 35.9% of the beneficiaries do not purchased productive assets but used the loan for financing working capital and purchased inputs in greater volume to reduce its cost.

Change in household asset possession is one of the impact indicators of microfinance intervention. The assumption is that though increasing loan access to the poor, MFIs increase income which in turn increases the capacity of owning better household assets. Pursuant to Getaneh (2005), microfinance service is said to have positive impact on household level variables such as: household income, household assets, education and nutrition.

Table 4.24 Respondent's household asset possession before and after loan.
n= 231

Household Assets	Before loan		After loan	
	Frequency	Percent	Frequency	Percent
Chair	195	84.4	221	95.7
Refrigerator	22	9.5	122	52.8
Bed	197	85.3	221	95.7
Radio	180	77.9	216	93.5
TV	52	35.5	195	84.4
Shelf (Buffet)	90	39	174	75.3
Table	159	68.8	204	88.3
CD/DVD player	41	17.7	184	79.7
Sofa set	35	15.2	142	61.5

Source: Field survey

Thus, measuring asset accumulation at the household level is an approach that is also increasingly recommended as a focus of impact study (Ledgerwood, 1999). The finding of the research is not only based on through formal interviewing but also using structured observation. For instance, when the interviewer is told about the purchase of an asset, then the interviewer looked around to see if the asset is on sight if not the interviewer asked where it is.

As shown on table 4.24, the beneficiaries were asked about their asset accumulation at the household level, attaching a current money value to assets that existed before and after participation of the program. The data in the table revealed that before program participation, most of the respondents possess modest household assets such as chair, table, bed and radio. For instance, 84.4%, 85.3% and 77.9% of the respondents had chair, bed and radio

respectively before program participation while very small number of beneficiaries had assets which are of higher monetary value. Such assets are refrigerator, TV, shelf (buffet), CD/DVD player and sofa set. For instance, the number of respondents having these assets before program participation were 9.5% (had refrigerator), 35.5% (had TV), 39% (had shelf/ buffet) 17.7% (had CD/DVD player) and only 15.2% (had sofa set). But after program participation, the number of respondents who reported and as observed by the interviewer, possessing higher valued assets has risen significantly. For example, only 9.5% of the respondents possessed refrigerator, while after program participation the number increased to 52.8% and only 15.2% of them had sofa set before loan but the number increased to 61.5% after taking loan.

The most common household assets are chair and bed (i.e. 95.7%). As noted above, there is better household possession especially for those assets of higher value, relative to the situation that existed before loan. As revealed above, one approach that used to measure the asset accumulation capacity of households to evaluate the impact of the program towards poverty reduction is now increasingly recommended and the finding of the study show that AdCSI credit scheme have a positive impact on increasing household as well as capital assets accumulation.

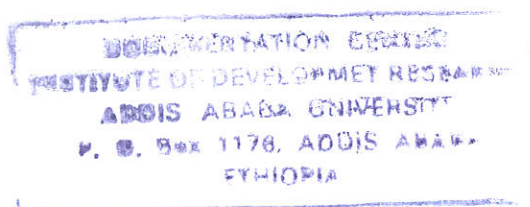


Table 4.25 Asset possession and value of assets. n=231

Value of total house hold and capital assets(ETB)	Before Loan						After Loan					
	Male		Female		Both Sexes		Male		Female		Both sexes	
	F	%	F	%	F	%	F	%	F	%	F	%
≤2000	34	14.7	35	15.2	69	29.9	6	2.6	4	1.7	10	4.3
2001-4000	28	12.1	34	14.7	62	26.8	8	3.5	10	4.3	18	7.8
4001-6000	29	12.6	39	16.9	68	29.5	17	7.3	26	11.3	43	18.6
6001-8000	3	1.3	7	3	10	4.3	16	6.9	15	6.5	31	13.4
8001-10000	5	2.2	6	2.6	11	4.8	22	9.5	24	10.4	46	19.9
10001-12000	0	0	1	0.4	1	0.4	7	3	14	6.1	21	9.1
12001-14000	0	0	0	0	0	0	9	3.9	6	2.6	15	6.5
14001-16000	4	1.7	3	1.3	7	3	6	2.6	18	7.8	24	10.4
16001-18000	0	0	0	0	0	0	1	0.4	2	0.9	3	1.3
18001-20000	2	0.9	0	0	2	0.9	8	3.5	6	2.6	14	6.1
20001-22000	0	0	0	0	0	0	1	0.4	0	0	1	0.4
>22000	1	0.4	0	0	1	0.4	5	2.2	0	0	5	2.2
Total	106	45.9	125	54.1	231	100	106	45.9	125	54.1	231	100

Note: F =Frequency.

Source: Field survey

As revealed on table 4.25, the number of respondents whose value of assets less than or equal to 2000 ETB is 29.9% before loan but after program participation this number decreased to only 4.3%. It means the number of beneficiaries, owning assets which is less than or equal to 2000 ETB reduced

to 4.3% after program participation. Before loan only 10(4.7%) of the respondents reported the value of their available assets to be greater than 10,000 ETB while after program participation this number increased to 83(36%). One cause of poverty is lack of assets, Getahun (1999) and Bekele (1996) further noted that the income earning capacity of the entrepreneurs in the informal sector is low because they lack the capital assets necessary for income earning. Such result is an indication of how credit provision increased asset possession of the loanees.

Concerning the effect of credit on the value of available asset possession by gender 39.4% of males and 46.9% of females reported the value of their assets possession before loan to be less than 6001 ETB. But after loan, only 13.4% of males while there are as many as 17.3% of the females are within this value of assets. But the impact of borrowing on the value of available assets by women is better than borrowing by men. Because out of the male beneficiaries whose value of available assets to be less than 6001 ETB, i.e. 39.4%, of this number, 26% has grown to higher value of assets after loan. But out of the female beneficiaries (46.9%) whose value of available assets to be less than 6001 ETB before loan, 29.6% of them increased to higher value of assets after loan. And to know whether, there is significant difference on the impact of borrowing on male and female loanees statistical tests has to be done.

Table 4.26 Wilcoxon signed ranks test result for the value of assets of loanees before and after borrowing.

Ranks	N	Mean rank	Sun of Ranks	Z-value	Sig.	Z-tabulated
Negative Ranks	4 ^d	38.88	155.50	-12.368	0.00	1.96
Positive Ranks	205 ^e	106.29	21,789.50			
Ties	22 ^f					
Total	231					

Source: field survey

Source: field survey

To know whether the variation in value of assets accumulation after loan is due to chance or due to the program, Wilcoxon signed rank test was employed.

H_0 : average value of assets before loan = average value of assets after loan.

H_1 : average value of assets before loan $\neq$ average value of assets after loan.

The test results presented on the above table shows that there is a significant increase in value of assets after program participation, $T = 155.50$, $P < 0.05$, with the ranks for increases totaling 21,789.50 and the ranks for decreases totaling 155.50. Therefore, since $P < 0.05$, we reject the null hypotheses (H_0) which says the program has no effect and any differences are due to chance. Thus, provision of credit significantly increased assets accumulation.

d. the value of total assets after loan $<$ the value of total assets before loan.

e. the value of total assets after loan $>$ the value of total assets before loan.

f. the value of total assets after loan = the value of total assets before loan.

To compare the impact of borrowing on men and women beneficiaries' value of available assets, independent two sample t-test was employed.

H_0 : average value of assets after loan for male = average value of assets after loan for female.

H_1 : average value of assets after loan for male $\neq$ average value of assets after loan for female.

Table 4.27.T- test result for value of assets of male and female after loan.

Sex	N	Mean	Std. deviation	Mean difference	Std. Error	T-value	Sig	df
Male	106	10981.1	7695.7	1393.1	816.4	1.706	0.089	229
Female	125	9588	4523.3					

Source: field Survey

The result of the t-test as shown on table 4.27, there is no significant difference in value of assets after loan between male and female beneficiaries. The test was not significant, $t(229)=1.706, P>0.05$. Therefore, we failed to reject the null hypotheses (H_0) and thus, concluded that the value of assets of the male beneficiaries is not significantly greater than the female beneficiaries.

4.8.4) Impact of AdCSI on Improving Food Consumption

At household level microfinance service is said to have positive impact on household level variables such as: household income; household assets, education, nutrition and coping strategies (Getaneh, 2005). This is because of indirect impact of increase in income generated from micro and small business activities. Thus, the credit scheme of AdCSI is expected to improve respondents' diet.

Table 4.28. Respondents diet condition before and after loan.

Diets	Indicator	Before loan		After loan	
		Freq	Per.	Freq	Per.
Number of meals per day	Once	-	-	-	-
	Twice	9	3.9	2	0.9
	Three times	220	95.2	215	93.1
	More than 3 times	2	0.9	14	6
Diversion of money from food consumptions because of the loan.	Yes	-	-	9	3.9
	No	-	-	222	96.1
Household diet condition since Program participation.	Decreased	-	-	9	3.9
	Stayed same	-	-	39	16.9
	increased	-	-	140	60.6
	Increased greatly	-	-	43	18.6
Is the improvement due to the loan? (valid n=231)	Yes	-	-	180	98.4
	No	-	-	3	1.6

Source: Field Survey

The majority of the respondents reported that they used to eat three times per day even before program participation and only 3.9% of them used to eat twice a day. And after loan the number of respondents who reported that they used to eat twice a day decreased from 3.9% to 0.9%. And 14 respondents or 6% of the sample beneficiaries became able to eat more than 3 times after taking part in the program.

The beneficiaries were asked about the overall household diet condition after program participation. Accordingly, as shown on table 4.28, 79.2% of the beneficiaries reported that their overall diet condition has improved since program participation. While 16.9% said there is no change in their overall diet condition and only 3.9% reported that there is decrement in the overall households diet after program participation, of these beneficiaries all of them said there is diversion of money from food consumption because to save more money to pay loan. Those, 79.2% who reported increment in the overall household diet condition after program participation were asked if such increasing comes from access to credit or attributed to some other reason. Accordingly, 98.4% of the beneficiaries reported that such betterment is due to loan access from the institution. The same question was raised during FGD and majority agreed that due to participating in the program they become able to eat better quality and quantity of food. The majority said they used to eat less quality food items but after program participation they became able to eat what they called it “more quality” foods such as meat, egg, butter and so on.

As can be seen on table 4.29, 51% of the respondents' monthly food consumptions expenditure is less than 501 ETB before loan, whereas after loan, the number decreased to 13.4%. It means 37.6% of the respondents who used to be within this consumption level before loan, shifted to higher level of food consumption expenditure after program participation. And the number of beneficiaries, who reported monthly food consumption expenditure to be greater than 751ETB, are 24.3% before but after the intervention the number increased to 67%. Thus, borrowing has positive impact on securing food consumption of the household. Concerning the impact of borrowing on securing food consumption based on gender 22.5% of male and 28.6% of female beneficiaries' consumption expenditure used to be less than 501 ETB before program participation. However, this number decreased to 5.6% for male

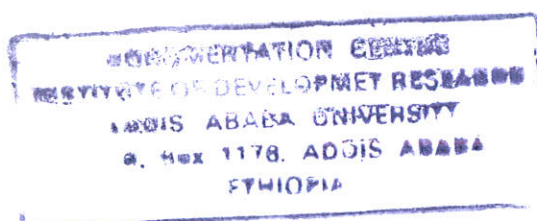
and 7.8% for female after borrowing, and the impact of borrowing on female beneficiaries is greater than the male. Because, 20.8% of the female beneficiaries are able to shift from this consumption level to higher level, whereas only 16.9% of the male beneficiaries shifted to higher consumption level. To know the significance of the difference between the female and male beneficiaries on consumption expenditure, statistical test has to be done.

Table 2.29 Food consumption expenditure. n=231

Monthly food consumption expenditure(ETB)	Before Loan						After Loan					
	Male		Female		Both Sexes		Male		Female		Both sexes	
	f	%	F	%	f	%	f	%	F	%	F	%
≤250	2	0.9	8	3.5	10	4.3	0	0	1	0.4	1	0.4
251-500	50	21.6	58	25.1	108	46.7	13	5.6	17	7.4	30	13
501-750	22	9.5	35	15.2	57	24.7	18	7.8	27	11.7	45	19.5
751-1000	30	13	20	8.7	50	21.7	55	23.8	55	23.8	110	47.6
1001-1250	2	0.9	1	0.4	3	1.3	1	0.4	8	3.5	9	3.9
1251-1500	0	0	2	0.9	2	0.9	7	3	10	4.3	17	7.3
1501-1750	0	0	0	0	0	0	5	2.2	1	0.4	6	2.6
1751-2000	0	0	1	0.4	1	0.4	7	3	5	2.2	12	5.2
2001-2250	0	0	0	0	0	0	0	0	0	0	0	0
2251-2500	0	0	0	0	0	0	0	0	0	0	0	0
>2500	0	0	0	0	0	0	0	0	1	0.4	1	0.4
Total	106	45.9	125	54.1	231	100	106	45.9	125	54.1	231	100

Note: f=frequency

Source: Field Survey



Generally for both sexes borrowing has increased food security of beneficiaries but especially the female beneficiaries tend to have higher monthly consumption expenditure. This may relate with the finding that female clients have more number of dependents than their counter parts. This may be attributed to higher food consumption expenditure by the women beneficiaries. To know the variation in mean food consumption expenditure before and after loan is statically significant or not, Wilcoxon signed ranks tests was employed.

H_0 : average monthly food consumption expenditure before loan = average monthly food consumption expenditure after loan.

H_1 : average monthly food consumption expenditure before loan $\neq$ average monthly food consumption expenditure after loan.

4.30 Wilcoxon signed ranks test result for average monthly food consumption expenditure before and after loan.

Ranks	N	Mean rank	Sum of Ranks	Z-value	Sig.	Z-tabulated
Negative Ranks	11 ^g	35.23	387.50	-12.052	0.00	1.96
Positive Ranks	196 ^h	107.86	21140.50			
Ties	24 ⁱ					
Total	231					

Source: field survey

The test result of the Wilcoxon test as shown above on the table, there is a significant increase in average monthly food consumption expenditure following program participation, $t = 387.50$, $P < 0.05$, with the ranks for increases totaling 21140.50 and the ranks for decreases totaling 387.50. Therefore, since $p < 0.05$,

we reject the null hypotheses and concluded that the program has significant impact on improving asset accumulation of the borrowers.

g. the average monthly food consumption expenditure after loan < the average monthly food consumption expenditure before loan.

h. the average monthly food consumption expenditure after loan > the average monthly food consumption expenditure after loan.

i. average monthly food consumption expenditure after loan = the average monthly food consumption expenditure before loan.

To compare the impact of borrowing on male and female beneficiaries regarding monthly food consumption expenditure, independent two sample t -test was employed.

Ho: average monthly food consumption expenditure for male after loan = average monthly food consumption expenditure for female after loan

H1: average monthly food consumption expenditure for male after loan ≠ average monthly food consumption expenditure for female after loan.

Table 4.31. T-test result for difference on monthly food consumption expenditure between male and female after loan.

Sex	N	Mean	Std. deviation	Mean difference	Std. Error	t-value	Sig.	df
Male	106	909.1	406.9	38.5	54.5	0.706	0.481	229
Female	125	948.6	418.8					

Source: field survey

As the result of the test revealed on table 4.31, there is no significant difference between the male and female beneficiaries concerning food consumption expenditure. And the test is not significant at, $t(229) = 0.706$, $P > 0.05$. Therefore, we failed to reject H_0 (the null hypotheses) and concluded that there is no significant difference.

4.8.5) Impact of AdCSI on Improving Access to Education

Lack of educational opportunity is one of the most powerful determinants of poverty and unequal access to educational opportunity is strongly correlated with income inequality (Assefa, 2004). Thus, creating access to education is one area of intervention under the poverty reduction strategy. Poor people rarely afford educational access to their children. Even if educational access is achieved, the poor cannot cover the costs related with education such as uniforms, books, and transport expense and so on, due to lack of sufficient income.

It is expected that through the microcredit obtained the beneficiaries startup their own business or expand the existing, as a result they will increase their income (Ledgerwood, 1999). Then through the increased income, the beneficiaries are expected to support better education for their household members.

The research attempted to evaluate the impact of the AdCSI credit program on annual educational expenditure of loanees. Out of the sample beneficiaries, 67.10% (155) have school age children. And as shown on table 4.32, of the sample beneficiaries who have school age children, all of them have access to schools, both in public and private school. As can be seen on the same table, 83.3% have access to public school before loan while only 26% have access to private school before loan.

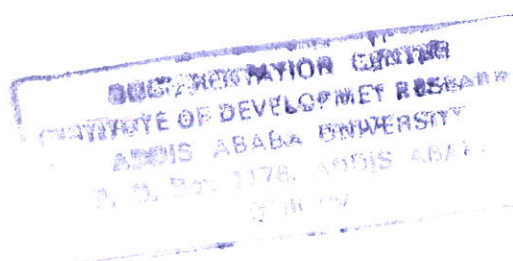


Table 4.32. Respondents' dependents access to educational facilities. Valid
n=155

	Response	Before loan		After Loan	
		Frequency	Percent	Frequency	Percent
Access to Public schools	Yes	130	83.3	115	73.7
	NO	-	-	-	-
Access to Private schools	Yes	26	16.7	41	26.3
	No	-	-	-	-

Source: Field Survey

The number of beneficiaries who have access to private schools increased from 16.7% before loan to 26.3% after loan. Poverty makes poor people not to access a range of community services such as safe drinking water, sanitation, transport, health and education. But through increasing income earning opportunities of the poor, can increase access to education even to private schools, which are relatively of higher cost than public schools. The result of this research revealed the same fact.

Table 4.33. Frequency Distribution of respondents' annual educational expenditure. Valid n=155

Annual educational expenditure(ETB)	Before Loan						After Loan					
	Male		Female		Both Sexes		Male		Female		Both sexes	
	f	%	f	%	f	%		%		%	f	%
≤350	30	19.4	44	28.4	74	47.8	11	7.1	18	11.6	29	18.7
351-700	17	11	25	16.1	42	27.1	12	7.8	12	7.8	24	15.6
701-1050	7	4.5	19	12.3	26	16.8	10	6.5	20	12.9	30	19.4
1051-1400	0	0	0	0	0	0	1	0.6	1	0.6	2	1.2
1401-1750	2	1.3	0	0	2	1.3	3	1.9	8	5.2	11	7.1
1751-2100	5	3.2	3	1.9	8	5.1	8	5.2	16	10.3	24	15.5
2101-2450	0	0	0	0	0	0	1	0.6	0	0	1	0.6
2451-2800	0	0	0	0	0	0	5	3.2	3	1.9	8	5.1
2801-3150	0	0	0	0	0	0	3	1.9	10	6.5	13	8.4
>3150	2	1.3	1	0.6	3	1.9	8	5.2	5	3.2	13	8.4
Total	63	40.7	92	59.3	155	100	62	40	93	60	155	100

Note: f-frequency

Source Field Survey

As shown on the table 4.33, before program participation, 47.8% of the beneficiaries' annual education expenditure was below or equal to 350 ETB, but after program intervention this number decreased to 18.7%. The number of beneficiaries whose annual education expenditure is greater than 2100 ETB, were only 3(1.9%) before loan, whereas the number increased to 35(22.5%) after program participation. And the number of beneficiaries whose annual education expenditure is between 1051-2100 ETB were only 10(6.4%) but the number increased to 37(23.8%), after the intervention. The issue was raised

development service to clients, it has to exploit the potential there in other institutions. Also there is a need for the institution conduct strong orientation on the products to promote saving habits and promotional efforts especially to women clients whose average saving is lower than the male average.

during FGD, and the majority of the focus groups agreed that, due to increased business profit which is financed by the loan from AdCSI, they became able afford better than before the intervention, to the expenses related with education.

They also said, the children used to wear the same uniform each passing year, which is torn and of poor quality due to lack of income but now they are able to buy a new school uniform each year and support their children with better educational materials than before.

The participants in the FGD noted that they are now capable of educating their children in private collages who had completed grade 12 but unable to join universities. Thus, it can be said that AdCSI has positive impact on education. Further, the beneficiaries were asked if such increase in education expense has come from the intervention or not. The result of the interview indicated that 96.8% of them reported, it is as a result of income improvement from the activity financed by loan and only 2.6% and 0.6% reported that, it is due to increase in household awareness towards education and new school built in the area respectively.

The respondents reported that there is increase in annual education expenditure after they took loan repeatedly from the institution. Meaning after program participation the respondents became able to fulfill the materials and equipments related with their children's education. And whether these is significant variation in annual education expenditure after program participation or not Wilcoxon signed ranks test was employed.

Table 4.36. Wilcoxon signed ranks tests result for annual educational expenditure before and after loan

Ranks	N	Mean rank	Sum of Ranks	Z-value	Sig.	Z-tabulated
Negative Ranks	1 ^j	116.50	116.50	-9.248	0.00	1.96
Positive Ranks	120 ^k	60.54	7,264.50			
Ties	33 ^l					
Total	154					

The results of the test as revealed on the above table, there is significant variation or difference in education expenditure before and after loan, $T=116.50$, $p<0.05$, with the ranks for increases totaling 7,264.50 and the ranks for decreases totaling 116.50. Therefore, since $p<0.05$, we reject the null hypotheses (H_0) which says the program has no impact on improving education access and any variation is due to chance. The conclusion is that program participation helps the respondents to become able to fulfill the materials and equipment related with their children's education. To compare the impact of borrowing on annual educational expenditure of the male and female beneficiaries, independent two sample t-test was employed.

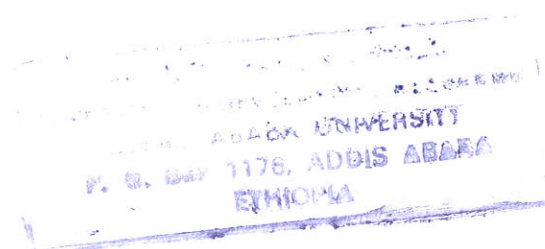


Table 4.35.T-test results for deference on annual educational expenditure between male and female beneficiaries after loan.

Sex	N	Mean	Std. deviation	Mean deference	Std.error	t- value	Sig.	df
Male	62	1582.2	1365.4	154.6	204.6	0.756	0.451	153
Female	93	1427.6	1163.6					

Source: Field survey.

Ho: annual educational expenditure for male after loan= annual educational expenditure for female after loan.

H₁: annual educational expenditure for male after loan # annual educational expenditure for female after loan.

The result of the test as depicted on table 4.35, there is no significant difference between male and female beneficiaries regarding annual educational expenditure after loan. The test is not significant, $t(153) = 0.756$, $p > 0.05$. Therefore, we failed to reject the null hypotheses (Ho) and concluded that there is no significant difference regarding annual educational expenditure between male and female beneficiaries after loan.

j. the annual educational expenditure after loan < the annual educational expenditure before loan.

k. the annual educational expenditure after loan > the annual educational expenditure before loan.

l. the annual educational expenditure after loan = the annual educational expenditure before loan.

4.8.5) Impact of AdCSI on Improving Access to Medical Facilities.

Due to low level of income people have no or little access to public services as medical facilities. Like improving educational facilities AdCSI credit scheme is expected to improve access to medical facilities as well.

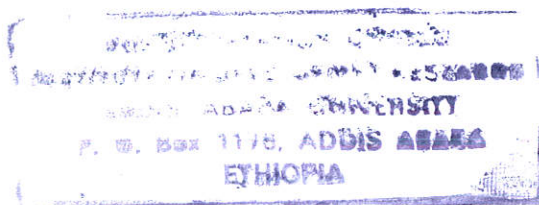
Table 4.38. Access to medical facilities before and after loan.

Description	Responses	Male		Female		Both Sexes	
		F	%	F	%	F	%
Any sickness in the household during the last 12 months. n=231	Yes	55	23.8	67	29	122	52.8
	No	51	22.1	58	25.1	109	47.2
Did you get medical treatment? Valid n=122	Yes	54	44.3	67	54.9	121	99.2
	No	1	0.8	0	0	1	0.8
Five years ago, was there ill member not taken for medical treatment due to lack of money? n=231	Yes	25	10.8	27	11.7	52	22.5
	No	80	34.6	99	42.9	179	77.5
Over all medical access. n=231	Increased	53	22.9	63	27.3	116	50.2
	Stayed same	53	22.9	62	26.9	115	49.8
	Decreased	0	0	0	0	0	0

Note: f =frequency

Source: field survey

The result of the survey indicated on table 4.36, out of the sample respondents 122(52.8%) had been sick during the last 12 months and out of these number 99.2% got medical treatment. And the respondents were also asked about their access to medical facilities five years ago i.e. before program participation.



And as show on the same table, only 77.5% had access to medical service before program participation and as noted above the access increased to 99.2% after program participation.

50.2% of the a sample respondents said their access to medical facilities has improved since program participation while 49.8% said there is no change in their access before and after program participation.

Table 4.37 Frequency Distribution of respondents' annual medical expenditure before and after loan. n=231

Annual medical expenditure(ET B)	Before Loan						After Loan					
	Male		Female		Both Sexes		Male		Female		Both sexes	
	f	%	f	%	f	%	f	%	f	%	f	%
<250	72	31.2	81	35.1	153	66.3	37	16	46	19.9	83	35.9
251-500	25	10.8	27	11.7	52	22.5	31	13.5	35	15.2	66	28.7
501-750	3	1.3	8	3.5	11	4.8	9	3.9	10	4.3	19	8.2
751-1000	4	1.7	7	3	11	4.8	18	7.8	21	9.1	39	16.2
1001-1250	0	0	1	0.4	1	0.4	1	0.4	1	0.4	2	0.8
1251-1500	0	0	0	0	0	0	2	0.9	2	0.9	4	1.8
1501-1750	0	0	0	0	0	0	0	0	0	0	0	0
1751-2000	2	0.9	1	0.4	3	1.3	7	3	7	3	14	6
2001-2250	0	0	0	0	0	0	0	0	0	0	0	0
2251-2500	0	0	0	0	0	0	0	0	1	0.4	1	0.4
>2500	0	0	0	0	0	0	1	0.4	2	0.9	3	1.3
Total	106	45.9	125	54.1	231	100	106	45.9	125	54.1	231	100

Note: f= Frequency

Source: Field survey

Source: Field survey

Table 4.37, shows that the majority (66.3%) of beneficiaries' annual medical expenditure was below or equal to 250 ETB after loan, this number decreased to 35.9% after loan. And the number of respondents who said an annual medical expenditure of greater than 250 ETB before loan were only 78(33.8%) while after loan this number increased to 148 (64.1%) after loan. Thus, from the finding it can be concluded that the beneficiaries' annual medical expenditure has improved after program participation. But to know whether there is significant impact of borrowing on improving access to medical facilities or not, Wilcoxon sign ranks tests was employed.

Ho: annual medical expenditure before loan = annual medical expenditure after loan.

H1: annual medical expenditure before loan $\neq$ annual medical expenditure after loan.

Table 4.38 Wilcoxon signed ranks test result for annual medical expenditure before and after loan.

Ranks	N	Mean rank	Sum of Ranks	Z-value	Sig.	Z-tabulated
Negative Ranks	0 ^m	0.00	0.00	-9.436	0.00	1.96
Positive Ranks	118 ⁿ	59.50	7021.00			
Ties	113 ^o					
Total	231					

Source: Field survey.

The result of the Wilcoxon signed ranks test as depicted on the above table, there is a strong treatment effect as on all of the previous Wilcoxon tests but this test is the strongest because in the extreme case, all of the differences will be in the same direction. This will give a Wilcoxon T of zero. Here also all the differences are in same positive direction and the sum of the negative ranks is zero. Small T value (near zero) provides evidence for a real difference between the two treatment condition i.e. before and after loan.

Thus, there is a significant increase in access to medical facilities after program participation, $T=0$, $P<0.05$, with the ranks for increases totaling 7021 and the ranks for decreases totaling zero (the extreme case). Therefore, since $P<0.05$, with the ranks for decrease totaling 0 (the extreme case), we reject the null hypotheses (H_0) and concluded that there is a strong treatment effect. That means there is a significant variation in annual medical expenditure after program participation compared with before the intervention.

m. Annual medical expenditure after loan < Annual medical expenditure before loan.

n. Annual medical expenditure after loan > Annual medical expenditure before loan.

o. Annual medical expenditure after loan = Annual medical expenditure before loan.

To compare the impact of the program on improving access to medical facilities between the male beneficiaries and the female, independent two sample t-test was employed.

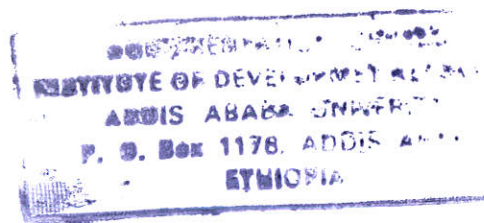


Table 4.39 T-test results for difference in annual medical expenditure between male and female beneficiaries after loan.

Sex	N	Mean	Std. deviation	Mean difference	Std. Error	T-value	Sig	df
Male	106	576.5	550.3	-19.4	83.05	0.233	0.816	229
Female	125	595.8	688.7					

Source: field survey

Ho: annual medical expenditure for male after loan = annual medical expenditure for female after loan.

H1: annual medical expenditure for male after loan# annual medical expenditure for female after loan.

The result of the test as shown an table 4.39, even though the annual mean medial expenditure for female is greater than the annual mean medical expenditure for male after loan but it is not statistically significant at, $t(229) = -0.233$, $P > 0.05$, therefore, we failed to reject the null hypotheses (Ho) since $P > 0.05$. And concluded that, there is no significant difference between the male and female beneficiaries concerning their annual medical expenditure after loan.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 CONCLUSION

The majority of the beneficiaries were denied access of credit from both the formal and informal financial institutions either to start up a new micro and small scale business activity or to expand the existing one so as to increase their income level to graduate out of poverty. The institution was capable of creating easy, affordable and diversified option for collateral to integrate the un-served market so as to narrow the absurd gap between the supply and the demand for credit. Accordingly, all of the clients had continued access to credit and all of the sampled clients were able to access loan 3 and more than three times successive rounds of loan from the institution.

Overall, credit provision had a significant impact on income of the beneficiaries whom are engaged in a diversified micro and small business activities ranging from trading, service giving, manufacturing and urban agriculture. According to the study 96.1% of the mature clients witnessed increase in income levels. The average monthly income of the male clients increased from 918.6 to 2157.1 ETB and the females' increased from 814.8 to 1834.8 ETB after program participation. The reasons for positive change in income of the beneficiaries were: through the loan they were able finance productive capital assets and finance the working capital of the business. Therefore, the credit helped them to open a new business, expand the existing and diversity sources of income.

The increased income generated by the credit input had a positive significant impact on households food supply, educational provision for children, asset accumulation (both productive and capital assets) and medical provision. All of the socio-economic variables showed statically significant change after program participation. According to the study 64.1% of the sample beneficiaries purchase productive assets due to access of loan and 79.2% reported that their households' over all diet condition has improved after

program participation and only 77.5% of the clients could afford to medical expenditures of their families before program participation but the number increased to 99.2% after the intervention.

The impact related with gender, there is no statically significant difference between the male and female beneficiaries regarding the socio-economic variables assumed except for the level of income. This may be due to the fact that the female clients of the institution are engaged in business activities which requires less capital as a result they are granted with less loan compared with the male, as a result they are engaged in business activities which requires less capital and provides less profits in relation with the male beneficiaries.

So, while the credit provision have a positive impact on reducing the poverty level of the beneficiaries by creating employment opportunity; increasing income levels; increasing the access for education, medical facilities and improving diet condition, the provision of credit are encountered with the following problems even if they are out-weighed by the positive aspects.

- Almost half of the respondents claimed that the loan amount is not sufficient.
- Despite the client orientation programs given by the institution, still 12.6 % and 38% of the beneficiaries still have no information on the interest rate of lending and saving respectively.
- Poor saving mobilization, as 83.5 % of the clients have deposited their major sums in other financial institutions and on average the institution could have mobilized 3813.2 ETB per individual.

- There is lack of prompt accessibility of the voluntary saving account. The majority (85.3%) complained the process takes several days to access the funds.
- The impact on saving related with gender, there is difference between male and female clients on the average saving amount. The average saving amount of the females both with the institution and other financial institution is lower than the male beneficiaries.
- There is significant difference between male and female clients regarding mean income after program participation. Therefore, the impact of the program in raising income is less on female clients.

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
 MINISTRY OF DEVELOPMENT
 ADDIS ABABA, ETHIOPIA
 P. O. Box 1176, ADDIS ABABA
 ETHIOPIA

5.2 Recommendation

According with the above findings of the study the following recommendations are forwarded:-

The positive effects of the credit scheme on beneficiaries' socio-economic conditions show that the credit program is on the right track to achieve its ultimate objective of poverty reduction. Therefore, such program should be encouraged and supported to increase its outreach so as to serve the unserved market intern to reduce the prevailing unemployment rate and poverty level of the city of Addis Ababa.

The saving mobilization effort of the institution is quite poor. Despite the high number of clients who have both kinds of saving with the institution, the clients deposited their major sums with other financial institutions. The majority of respondents reported that they prefer to save in banks due to lack of prompt accessibility of funds as the majority save for emergency cases; besides they do not trust the institution regarding safety for their cash as the offices are in wired situation. Therefore, there is a need for development of services, office infrastructure and logistical provision which can insure safety of cash. And at service delivery post there is a need for employing cash operating system like banks which requires cashier, teller, auditor and manager whose are ready to run the account as promptly as possible; and introduction of innovative products which is attached with saving.

Special attention to women, whose income from the business is lower in relation with male clients, in delivery of business development service and other skill development serves. And the women should be encouraged to take higher loan so as to engage in higher profiting business activities because the average loan taken by the female clients is lower than that of the male. Even though the institution cannot provide themselves such skill

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Annex-1
ADDIS ABABA UNIVERSITY SCHOOL OF GRADUATE STUDIES
COLLEGE OF DEVELOPMENTS STUDIES
ENVIRONMENT AND DEVELOPMENT

A SURVEY ON THE IMPACT OF MICROFINANCE ON URBAN POVERTY
REDUCTON : THE CASE OF ADDIS CREDIT AND SAVING INSTITUTION (AdCSI)

Structured Interview

Your answers are completely confidential, your name will not be written on this form, and will never be used in connection with any of the information you tell me.

Thank you for your cooperation!

General information

1. Respondent's address

Sub city _____

Kebele _____

House No. _____

Branch name _____

Don't ask question 02-07, just fill them by yourself.

2. Name of interviewer _____ Signature _____

3. Date of interview _____ (Ethiopian Calander)

4. Interview started at _____ : _____ hrs

5. Interview finished at _____ : hrs _____ (fill at the end)

6. Interviewer's visits

Visit 1 _____

Visit 2 _____

Visit 3 _____

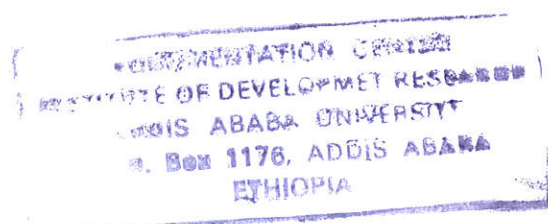
7. Interview identification Number _____

Personal information about borrowers

8. Borrower's sex

a. Male b. Female

9. Borrower's age _____



10. Marital Status

- a. single
- b. Married
- c. divorced
- d. windowed

11. Educational Level

- a. Non literate
- b. Read and Write only
- c. Grade 1-6 complete
- d. Grade 7-8 complete
- e. Grade 9-12 complete
- f. above grade 12
- g Others /Please specify)

12. How many living children do you have?

- a. Female _____
- b. Male _____

13. Can you tell me the number of dependents before the loan?

- a. Female _____
- b. Male _____

14. Can you tell me the number of dependents after the loan?

- a. Female _____
- b. Male _____

INFORMATION ON LOAN

A1. Was it possible to get loan from other finance sources other than AdCSI to expand or start business?

- a. Yes
- b. No

A2. If "Yes," from which source?

- a. Banks
- b. Relatives and friends
- c. Money lenders
- d. Equib

e. Others (Please specify)

A3. For how many rounds did you take loan?

a. First time

b. Second time

c. Third time

d. Forth time

e. More (Please specify)

A4. How much was your firstly micro credit? Birr _____

A5. How much is your lastly taken micro credit? Birr _____

A6. What is the type of collateral offered?

a. Group /social collateral)

b. Property (physical asset)

c. Third party guarantee (wahis)

d. Other (please specify)

A7. Was the loan provided to you sufficient to run your business?

a. yes b. No

A8. Was the loan issued timely?

a. yes b. No

A9. Is the frequency of repayment comfort you?

a. yes b. No

A10. What is your opinion regarding the interest rate of AdCSI?

a. High

b. Moderate

c. Low

d. Don't know

A11. What is the status of your loan repayment?

a. Fully repaid

b. Repaying according to schedule

c. Not repaid according to schedule

d. Other (please specify)

A12. If you are not paying according to the schedule, what do you think your problem is?

- a. illness /death of family members)
- b. Conflict with in the household (divorce and others)
- c. Theft of assets
- d. Used money for consumption purpose including festivity
- e. Default of other member (s) of the group
- f. Market related problems (price fluctuation, absence of demand)
- g. Payment of other loan(s)
- h. Period of repayment is inconvenient
- i. The loan activity was not profitable
- j. Other (please specify)

B. Information on saving

B1. How much do you save monthly?

Voluntary _____

Compulsory _____

B2. If you have saving with other financial institution, what is/ are your reasons)?

- a. Interest rate too low
- b. Prefer to save in iquib, Prefer to save in bank
- c. Difficult to with draw savings with AdCSI
- d. AdCSI doesn't give enough encouragement to save
- e. Don't trust AdCSI with my savings
- f. Don't aware of AdCSI savings facilities
- g. Other (Please Specify)_____

B3. What is you current total amount of saving from other financial institution?

Birr _____

B4. What is your source of money for saving?

- a. From business profit financed by the loan?
- b. From other sources of income
- c. Other (please specify)

B5. What do you think about the interest rate of AdCSI paid on saving?

- a. Less than the market rate
- b. Greater than the market rate
- c. Have no information about the interest rate

B6. How is the trend of your monthly saving after loan when it is compared with your monthly saving before loan?

- a. Decreased
- b. Stayed same
- c. Increased

B7. For what purpose do you save? (One or more answers are possible).

- a. For loan repayment
- b. For safety of cash
- c. To earn interest
- e/ To withdraw during emergency
- g For business expansion
- h/ Other (Please specify)

B8. Can you withdraw funds from your voluntary saving deposit in case of emergency cases like illness of your family members?

A/Yes b/ No

C. Information on income of the beneficiaries

C1. What is the average monthly income of your activity?

Before loan----- After loan-----

C2. Relative to your previous income, is there increment in your monthly income after taking loan?

- a. Increased significantly b. Increased slightly c. Stayed same d. decreased

C3. What are the reasons for positive changes in your income? (If the answer to QC6 is "a" or"

b" (1) _____

(2) _____

C4. If decreased, what are the main reasons?

- a. Indebted because of AdCSI credit.
- b. I have been sick
- c. Household members being sick and thus lost helper in my activity.
- d. Poor sales
- e. Other (Please specify)-----

D. Employment condition

D1. What kinds of occupation or activity are you engaged before loan?

- a. urban farming
- b. in school
- c. Trade
- d. Informal wage labor (both manual and skilled wage employment)
- e. Formal employee (civil servant, guard)
- f. Un employed but have some education
- g. Graduated from college but unemployed
- h. Herding and animal fattening

D2. Specify your occupation in which you are engaged after the loan?-----

D3. Is there any worker who helps you in your activity before the loan?

- a. Yes
- b. No

D4. If yes, what type of labor did you use before program participation?

- a. yourself
- b. Family members and yourself
- c. Hired labor, family members and yourself
- d. Hired labor and yourself
- e., Other (Please specify)-----

D5. What type of labor do you use after loan?

- a. yourself
- b. family members and yourself
- c. Hired labor, family members and yourself
- d. Hired labor and yourself
- e. Other (please specify) -----

E. ASSET POSSESSION

E1. What was the value of your total household and productive assets before program participation?

Birr -----

E2. What is the value of your total household and productive assets after program participation?

Birr -----

E3. Can you name the household assets you have (Indicate by this mark (/))

No	Asset type	Acquired	
		Before loan	After loan
A	Chair		
B	Refrigerator		
C	Bed		
D	Radio		
E	TV		
F	Shelf		
G	Table		
H	CD/DVD player		
I	Sofa set		
J	Others (please specify)		

E4. Did you bought new productive assets using the loan you have taken?

a/ Yes b/ No

E5.If the answer is 'yes' can you specify the productive assets you bought using the loan?-----

F. Household food consumption expenditure

F1. How much was the average monthly food consumption expenditure of your house hold before getting loan? Birr -----

F2. Is there an increase in food consumption expenditure of your house hold after taking the loan? a/ Yes b/ No

F3 How much is the average monthly food consumption expenditure of your household after getting loan? Birr -----

F4. How money times did your house hold eat meal per day before loan?

- a. Once
- b. Twice
- c. Three times
- d. More than three times

F5.How many times did your house hold eat meal per day after loan?

F6. Is there any diversion of money from consumption of food because of the loan?

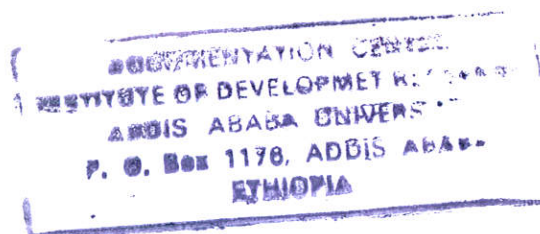
- a. Yes b. No

F7. During the last five years has your household's diet changed?

- a. decrease
- b. stayed same
- c. increased
- d. increased greatly

F8. During your program participation was there a time when it was necessary for your household to eat less because to save more to pay loan?

- a. Yes b. No



G. Access to education and Education Expense

G1 Do you have school aged children?

- a. yes b. no

G2. where you educate them?

Before loan

After loan

Private schools -----

private schools -----

Government schools-----

Government schools -----

G3. If the access to education and educational expenditure increased after loan, what are the main reasons? (One or more answer possible).

- a. New school built in the area
- b. Increased house hold awareness towards education
- c. Income improvement due to the activity financed by loan.
- d. Other (please specify) -----

G4. How much was your average annual household educational expense?

Before loan -----

After loan -----

H. Access to medical service and Health condition of the household

H1. During the last twelve months, was there an occasion in which you or members of your family are ill /injured and needed medical attention?

- a. Yes b. No

H2. If yes, did you take them to modern health facilities?

- a. Yes b. No

H3. If yes, where did you get the money you paid for medical treatment?

- a. Borrowed from other sources at cost
- b. From my saving
- c. Borrowed from friends and relatives
- d. From my business profit which is financed by loan.
- e. Other (please specify)-----

H4. Five years ago, was any ill/injured member of the house hold not taken for medical attention or treatment because the household lacked the money to pay for it?

- a. Yes b. No

H5. In general, do you think your access to medial facilitates?

- a. Increased
- b. Staged the same
- c. Decreased
- a. Other (please specify)-----

H6. How much is your annual medical expenditure?

Before loan -----

After loan -----

2-Observational checklist

A. Do you see the following durable household assets in the household? (Use this mark (/)).

No	Name of items	Present	Absent
1	Tables		
2	Chairs		
3	Sofa set		
4	Beds		
5	TV		
6	Refrigerator		
7	CD/DVD player		
8	Radio		
9	Other /please specify/		

B. Can you name productive or capital assets in the business activity area of the client? use this mark (V) to indicate the availability ?

No	Name of productive assets	Present
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		

3-Questions for Focused Group Discussion

- 1) How do you explain AdCSI requirements and process to get loan?
- 2) What is your attitude towards collateral types?
- 3) What is your idea about the amount of loan disbursed to you?
- 4) What do you think about loan repayment schedule?
- 5) What is your comment on saving types, and access of withdrawal?
- 6) What is your source of saving?
- 7) What changes do you observe in your life due to microfinance intervention?
 - ⇒ Is the total income of the house hold changed?
 - ⇒ Is household durable assets changed?
 - ⇒ Is the food consumption of the house hold changed?
 - ⇒ Is the productive asset of yours changed?
 - ⇒ Are you able to cover educational expense of your children better than before program participation?
- 8) What are the problems regarding the service of AdCSI that you want it to be solved to make AdCSI's microfinance credit even better?
- 9) What need to be done to solve the problem regarding the service of AdCSI?
- 10) Do you have saving account with other financial institutions other than AdCSI? Why?

ADCSI
P.O. Box 1176, ADDIS ABABA
ETHIOPIA

Declaration

"This thesis is my original work and has not been presented for a degree in any other university, and that all sources of material used for the thesis have been duly acknowledged."

Name: TSIYON HAILU

Signature: _____

Confirmed by advisor:

Name Dr. ABDULHAMID BEDRI

Signature: _____

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