

**AN ASSESSMENT OF THE AMHARA CREDIT AND SAVING INSTITUTION (ACSI)
LENDING PRACTICES: THE CASE OF KUARIT WOREDA, AMHARA REGION,
ETHIOPIA**

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This is to certify that the thesis prepared by Sintayehu Yihunie, entitled: An Assessment of the Amhara Credit and Saving Institution (ACSI) Lending Practices: The Case of Kuarit Woreda, Amhara Region, Ethiopia and submitted in partial fulfillment of the requirements for the Degree of Master of Arts in Sociology complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Abstract

Lack of access to credit is considered to be one of the major constraints the poor are confronted with when they are planning to make an investment. Hence, microfinance institutions intended to provide credit to those poor who are striving to improve their living situation but they have no access to credit services. Thus group lending is used as a mechanism to address the credit needs of those “active poor” by extending small loans in a group. So, studying the effectiveness of this method of lending is crucial. To this end, the main objective of this study was to assessing the Amhara Credit and Saving Institution lending practices taking Kuarit branch as a case with a special focus on group lending method. Specifically, the study looked into aspects such as nature of group formation, composition, and trust among group borrowers; the effectiveness of group lending method in including the extremely poor people; the contributions of the institutions’ loan on the clients living condition; challenges and opportunities of group lending method in comparison with other lending methods; and the reasons why clients use ACSI credit service rather than other sources of loan notably Equib, Mahiber, and money lenders. In doing so, the study employed methodological triangulation i.e. mixed-method research approach wherein the qualitative approach was the principal one. Consequently, the results of the study shows that, even though group lending method is thought to be an effective method to the inclusions of extremely poor people, still this model is not effective in comprising the poor since the borrowers create their own specific kind of collateral so as to reduce the costs from member's dropout. In addition, the study reveals that the trustworthiness of an individual within the group is determined by his/her physical asset status rather than their strong relationship or network within the group. The study further reveals that though group lending is the main loaning method by the institution, there are clients who have a greater preference for individual loans than borrowing in a group. The study also disclosed that clients preferred ACSI loans rather than loans from informal financial sources because in the latter case the amount of loan is too small, the interest rate is high, difficult to access lenders and a small amount of capital they have. From the results of the study one could fairly conclude that regardless of the group formation procedure and who the clients are, the credit service of the institution has assisted the borrowers. Yet, the benefits may vary from one client to another.

Keywords: *clients, group lending method, socioeconomic development.*

List of Acronyms

ACSI: Amhara Saving and Credit Institution

ADA: Amhara Development Association

AWA: Amhara Women Association

ETB – Ethiopian Birr

IFAD: International Fund for Agricultural Development

MFI: Microfinance Institution

NBE – National Bank of Ethiopia

NGO: Non-Governmental Organization

ORDA: Organization for the Rehabilitation and Development in Amhara

SIDA: Swedish International Development Agency

USAID: United States Agency for International Development.

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CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

The origins of microfinance traced back to 1976 when Muhammad Yunus set up the Grameen Bank after his experiment on the outskirts of Chittagong University campus in the village of Jobra, Bangladesh (Khan and Rahaman, 2007). Hereafter financial inclusion has developed as a unifying global goal of microfinance institutions: working towards universal access to financial services that help people not only to save and invest but also to manage risk and protect themselves from economic shocks (Armendariz & Morduch, 2004). Initially, microfinance institutions were provided microcredit service as their sole financial product. However, currently, existing microfinance institutions are established to provide different financial services for the poor who are out of the conventional banking system, particularly in developing countries. Among these crucial financial services offering poor people access to basic financial services, such as loans, savings, money transfer services, and micro-insurance (Hamada, 2010).

Lack of access to credit is considered to be one of the major constraints the poor are confronted with when they are planning to make small investments to improve their living conditions. Hence, microfinance institutions intended to provide credit to those poor who are striving to improve their living situation but they have no access to credit services from formal banks (Hermes and Lensink, 2007). Group lending is considered one of the best mechanisms to allow the poor to get this access to credit, thereby improving their income situation. The optimistic view on the potentials of group lending to reduce poverty is also inspired by the apparent success of the Grameen Bank in Bangladesh in reaching the poor and improving their income by extending small loans in a group (Hermes et al, 2003). This mechanism has believed to remove the need for physical collateral and created a banking system grounded on mutual trust, accountability, participation, and creativity. Hence, it can provide credit to the poorest of the poor, without any collateral. By doing so, credit assumed as a weapon to fight poverty and it catalyses the overall socio-economic development of the poor who have been kept outside the formal banking sector (Karim, 2008).

With the above-discussed assumption the group lending method has received the attention of policymakers as well as the academic literature. The attention for the program can be explained

from the fact that it seen by many as a solution for reducing poverty. The adoption of this method grows fast by many microfinance institutions, as it allows poor borrowers to act as guarantors for each other. As Armendariz & Morduch (2004) discussed, within this lending method, loans were provided to individuals organized as a group and act as collateral for one another to remove the physical collateral and replacing it with community trust and shared accountability to ensure the repayment of loans. Thus, it takes advantage of local information, peer support, and pressure. To utilize these advantages of the group lending method, many microfinance institutions in developed, as well as developing countries including Ethiopia, implement group lending method within their microfinance institutions.

The historical background of microfinance in Ethiopia is related to governments' effort to shift the financial sector from the socialist type of economic policy towards a liberal economy. Degfe (2009) indicated that, after the downfall of the Derg regime, the new government of Ethiopia introduced the policy of economic liberalization. Consequently, microfinance is taken as a shift from government and NGOs subsidized credit program to financial service run by specialized financial institutions. With this shift, some NGOs and government microcredit were transformed into microfinance institutions (Degfe, 2009). These institutions aimed at providing financial services to poor households and marginalized sections of the population. Accordingly, the Ethiopian government has provided a legal and regulatory framework for the establishment of microfinance institutions. Thus, Micro Financing Business Proclamation No. 626 /2009 was ratified by the FDRE, House of People's Representative. The proclamation aimed at providing for a legal regime that brings the activities of micro-financing institutions within Ethiopia's monetary and financial policies. As this proclamation indicated, the main purpose of a micro-financing institution shall be to collect deposits and extend credit to rural and urban farmers and people engaged in other similar activities as well as micro and small scale rural and urban entrepreneurs.

Currently, there are 35 microfinance institutions in Ethiopia. These intuitions are estimated to access no less than one million customers, mostly in rural Ethiopia.¹ Most of these institutions widely used group guaranty lending method as a breakthrough in reducing administrative costs, the default of borrowers and addressing challenges of collateralized lending. The entry-level group solidarity loans often constitute the first step towards the use of property banking services

¹ The reporter 30 March 2019 accessed from <https://www.thereporterethiopia.com/article/amhara-savingto-go-mainstream-banking>

to the financially excluded population. Then it assumed to enable borrowers to build up a credit history that will eventually make them capable of taking individual loans (Wolday, 2012).

ACSI is one of the most capitalized Ethiopian microfinance institutions with ETB 5.2 billion total capital. In terms of the number of borrowers, it is the second-largest microfinance institution next to Omo microfinance with 1.1 million customers (NBE, 2018). Since its establishment, like most of the Ethiopian microfinance institutions, ACSI has primarily operated on a group guaranty lending model. However, the question is how much this method of lending is effective in benefiting the poorest? What are the challenges and opportunities of the group lending method? Who is more beneficial to this method of lending, the lender institution or the borrowers? Or both? In this regard, assessing the effectiveness of various lending methods of microfinance institutions and come up with constructive recommendations is a very crucial work for researchers. Therefore, this study was conducted on one of the Amhara Credit and Saving Institution (ACSI) branch, Kuarit woreda. ACSI is the only microfinance institution providing services for the rural community of this woreda. Its establishment aimed at to promote economic activities of productive rural poor, alleviate poverty by giving priority to the rural and remote communities, increase clients' income and asset position. This study mainly investigate ACSI lending practices with a particular focus on the group lending method.

1.2.Statement of the Problem

In many developing countries the majority of people existing in extreme poverty. Usually, these poor have no access to loans from the formal banking sector, because they cannot be offered collateral that is acceptable by these banks. It implies that lack of having access to credit is one of the reasons why many people in developing countries remain trapped in poverty (Hermes et al., 2003). As a result, microfinance institutions established to help the poor to move out of poverty through the provision of small loans with a moderate level of the interest rate. Besides, the success of the Grameen model of microfinance institutions in Bangladesh leads to many developing as well as developed countries in the world to adopt microfinance institutions as a strategy to fight poverty (Bangoura, 2012). The main instrument to make it possible is made by a group lending method. The basic idea of group lending method is that loans are made to individuals who are a member of a borrowing group; yet, all group members are responsible for the repayment of the loans (Hermes et al., 2003). Microfinance institutions use group lending as an innovative approach to deliver microcredit to the un-bankable citizens by the formal banking sector. This innovative approach consists of group lending modality,

progressive small loans, regular compulsory savings, fixed repayment schedules and social collateral (Johnson & Rogaly, 1997).

During the past few years, after the success of the Grameen model in Bangladesh, it has been introduced in many developing countries. Yet, the debate continues on the limits of the "replicability" of the model in an economic, political and social environment that is different from Bangladesh. For instance, Scully (2004) appealed that microfinance credit should be adopted with caution because the idea that the poor derive any meaningful benefits from microcredit programs is a myth since microloans are usually so small it can only generate small revenues for those who use such loans for business purposes. Moreover, there are researches indicated the auspicious contributions of microfinance credit schemes, however, there is a growing concern within the microfinance circle that microfinance institutions focus on the commercial objective rather than poverty alleviation objectives. For instance, Chakravarty & Pylypiv (2017) denote that, there are recently emerging signs within the microfinance institutions that all might not be well with the micro lending industry. One is the profit-seeking behaviour of the institutions within various services provided to their clients. Wankel, (2008; cited in Tavanti, 2010), pointed out that initially, microfinance institutions labelled as a good instrument in poverty alleviation. However, their subsequent profit motive practices pushing them to provide credit services with high interest rates along with badly managed and ambiguously planned microfinance initiatives. Hamada (2010), also indicates "MFIs continue to evolve and are rapidly expanding in terms of scope. However, recently it absorbed the attention of various groups who consider it a good business opportunity. As a result, the microfinance "field" has changed into a microfinance "industry," and the pleasant era that just celebrated the success of Grameen Bank is now over". At this instant, MFIs criticized by their overabundance of profit and commercial orientations. In this regard, Charitonenko & Rahman (2002) pointed out that with this commercial orientation, MFIs inclined towards clients with good repayment potential and relatively reach areas rather than serving the poorest of the poor.

Tavanti (2010) also revealed that in the case of India, the poor farmers committing suicide after facing their inability to repay the few hundred dollars of microfinance institutions' loans at high interest rates. The author indicated that this issue is the problem of most developing countries. Regarding this the study by Ngala and Obino (2016) in the case of Kenya, indicated that clients of microfinance institutions experienced several challenges with the group loaning method, one is the high-interest rate (16-22%) on the group loans.

Ethiopia is one of the developing countries which has many microfinance institutions as a development plan for poverty alleviation. This sector is showing high growth from time to time. But there are observed problems concerning their services that also may have a threat on the issues of how to create sustainable microfinance sector that can serve extremely poor people and let the sector to achieve its initial mission of poverty reduction and inclusive development. Client dissatisfaction on the institutions' services is one of the problems within Ethiopian MFIs. For instance, Wegayehu and Kalaba (2017) indicated that within group lending methods the borrowers are unhappy with the collateral arrangements, the interest rate on loans and savings. Dackauskaite (2009), also indicated that client's dissatisfied with collateral situations and the high interest rate on group loans, they have opted to exit altogether rather than carry on taking group loans.

Furthermore, studies have been conducted to examine whether microfinance can help the poor and achieving its mission of inclusive development or not. For instance, Rooyen et al, (2012) show that microfinance harms, as well as good, to the livelihoods of the poor. Some others such as Mosley and Hulme (1998) indicate that MFIs benefit the poor but not for the poorest. Hence, in some cases microfinance has brought positive impacts on the life situations of the clients, whereas, in some other studies, microfinance is found to play a little role in the sustainable development of the poor. Siyoum et al, (2012) indicated that by providing initial capital for self-employment the provision of credit can, in theory, help poor people to move out of poverty and food insecurity. But in practice, the role of credit in poverty reduction and long-term livelihood improvement of clients is not as beneficial as claimed by its proponents. Thus, this study questioned the long term impacts of microfinance credit services. Therefore, it necessitates an investigation on the effectiveness of various lending methods of microfinance institutions in general, and the most widely used method, i.e. group lending method in particular, with the perspectives of clients.

Indeed, many studies have been conducted concerning Ethiopian microfinance institutions and their contribution to poverty reduction. Yet, the focus of these studies revolves around the areas of institutional performance (Wolday, 2002; Befekadu, 2007; Abdi & Batra, 2018; Muluken & Mesfin, 2014), outreach and sustainability (Fekadu, 2011; Kidane, 2007), gender empowerment (Getaneh, 2010), and other related issues. There are studies also on the area of access issues such as the gap in terms of access and demand to financial services (e.g. Getaneh & Garber, 2007; Dilayehu, 2014). The findings on these studies highlight the existence of few institutions to provide financial services, especially to the rural area. Moreover, some of the

other researches scopes are nationwide and very broad (e.g. Venkata & Mangala, 2011; Abdi & Batra, 2018), therefore, they have given little emphasis for the voice of clients of the institution.

Since most of the researches in the area of microfinance focused on institutional performance and service outreach, little has been investigated about the effectiveness of various lending methods adopted by microfinance institutions. Among these, group lending method used by many Ethiopian microfinance institutions including ACSI especially to provide credit services for the low-income population. Here the issue is how much this method is benefiting clients in general, and to incorporate extremely poor sections of the society within microfinance services in particular. Building on this, this study was aimed at investigating the ACSI lending practices with a special focus of borrowers on the group lending method.

1.3.Objectives of the Study

The general objective of this study is to investigate the ACSI lending practices: the case of Kuarit Woreda. In line with this general objective, the study was conducted to address the following specific objectives:

- ❖ To examine the nature of group formation, interaction, and the extent of trust among the group borrowers.
- ❖ To examine the effectiveness of the group lending method in comprising the extremely poor people within the credit scheme of the institution.
- ❖ To examine the impacts of the loan on the borrowers living condition.
- ❖ To describe challenges and opportunities of group lending method in comparison to other lending options.
- ❖ To identify determinants why clients using ACSI credit services rather than loans from other informal financial sources.

1.4.Scope of the Study

Currently, ACSI has provided its services in all woredas of the Amhara region. The institution has 204 sub-branches and 15 micro-banks. However, geographically this study is limited to the clients of Amhara Credit and Saving Institution of Kuarit woreda, Gebeze Mariam branch. The rationality behind this is that due to time and financial constraints conducting research up on all of ACSI branches in the regional context come to be very difficult and also the data may become unmanageable. Furthermore, though ACSI currently employs different kinds of

lending methods such as individual lending, group lending, credit unions, etc. this study was mainly confined to assessing the contributions of the group lending method for the socio-economic development of the clients.

1.5. Significance of the Study

This study focused on the ACSI lending practices with a particular emphasis of group lending method which is little investigated issue within previously conducted studies on the area of microfinance. Therefore this study may be helpful for microfinance institutions by providing updated information about the effectiveness of group lending methods to improve the lives of their clients. A detailed look at the effectiveness of group lending method could help to make an indication on the strengths and weaknesses of this lending strategy of the institution. It might help the institution to respond to the clients' desire and it would also enhance the possibilities of the poor clients to participate in the microfinance programs thereby facilitating their efforts to escape or alleviate poverty.

The findings of this study can also serve as a reference for upcoming interested researchers in the area.

1.6. Working Definitions of Terms

- ❖ **Active poor:** able-bodied poor persons who are excluded or have difficulty in accessing the credit services of the existing financial system which require physical collateral. They are assumed, people with the ability to use small loans effectively and willingness to repay the loan on time.
- ❖ **Clients:** are individuals or groups who use the product or services of microfinance institutions.
- ❖ **Collateral:** it is an asset guaranteed by the borrowers to secure the loan repayment among group members.
- ❖ **Equib:** is a non-formal rotating saving and credit association formed by groups of individuals who meet regularly in a specified time interval.
- ❖ **Group lending:** it represents the mechanism by which small scale loans are distributed for the people who are organized in a group. The loan is given to the group and the repayment is based on the group collective effort. It is expected that by getting access to this loan, poor people will gain economic sustenance by using this money for self-employment.

- ❖ **Iddir:** is a kind of informal insurance group formed by a group of individuals to mitigate emergencies, most of the time for the death of household members, and also for other accidents/shocks.
- ❖ **Kebele:** Local level government administrative unit
- ❖ **Mahiber:** a cultural association formed by a group of people and it is organized based on their culture and norm to help each other.
- ❖ **Woreda:** District level government administrative unit

1.7. Organization of the Thesis

The thesis is organized into five chapters. In the first chapter background, statement of the problem, objectives of the study, significance of the study, the scope of the study and ethical considerations are presented. The second chapter would discuss related literature and relevant empirical studies. The third chapter would focus on the research methods and materials applied in the study. It would also present descriptions of the study area and profiles of the institution. The fourth chapter focused on data presentation and analysis. The analysis would be based on the objectives of the study. It would also discuss profiles of the clients in the first section, and it followed by the second section which discusses about group formation, interaction, and level of trust among group borrowers; the effectiveness of group lending method in including the poorest within the institution's service; the impacts of the institutions' loan on the clients living condition; and challenges and opportunities of group lending method. Moreover, Microfinance versus informal financial institutions would also examine to show the determinants of clients' preference of ACSI loan rather than loans from other sources, which would be followed by the discussion of the training program by the institution. The thesis would be finalized with chapter five where the summary of findings provided, conclusions would be drawn based on the findings and recommendations would be forwarded.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

After the success of the Grameen model of microfinance in Bangladesh, microfinance programs gained wide recognition and application across the world including Ethiopian microfinance institutions. The application of microfinance institutions by developed as well as developing countries is that because microfinance institutions considered as an important tool in poverty alleviation, and also viewed as a prominent instrument to empower the marginalized sections of the population such as poor women. This chapter of the study provides an overview of microfinance institutions, characteristics of microfinance institutions, socioeconomic status, and microfinance institutions and provides a highlight on microfinance as a poverty reduction device and related scholarly debates on the issue that would help to expand the understanding on various contributions of microfinance institutions. Besides, this chapter discusses informal microfinance institutions in Ethiopia, an overview of microfinance institutions in Ethiopia, the lending methodologies of these microfinance institutions, the applications of group lending method in Ethiopian microfinance institutions, challenges and opportunities of borrowing in a group. Moreover, empirical studies concerning microfinance institutions will be discussed. Finally, this chapter discusses the legal framework of Ethiopian microfinance institutions and the theoretical framework of the study.

2.1. An Overview of Microfinance Institutions

At present-day microfinance is one of the largest development programs worldwide, both in financial terms and in terms of the number of poor people targeted (Rooyen et al, 2012). Yet, the concept of microfinance is not new. The concept and practice of credit groups and small savings have been operating across poor communities of different parts of the world for centuries. Pizzo et al. (2013; as cited in Capurro, 2017) pointed out that, the historical origins of microfinance can be traced back to medieval Italy during the fifteenth century. The practice of providing a small amount of loans was practiced under the sponsorship of the Catholic Church. The loan was not effective because the church was not economically sustainable since it depended on the charity and donations of well-off individuals but it paves the way for the emergence of the modern type of microfinance institutions. Degfe (2009) pointed out, the present concept of MFI is the rediscovery and renaissance of the pre-existing practice of charity services and private moneylenders. But the modern microfinance institutions have become more institutional and formal than the previous one. As far as Modern microfinance is

concerned scholars agree that it was born in Bangladesh in the 1970s. According to Tavanti (2010), the time was in the aftermath of the country's war of independence, when Muhammad Yunus, an economics professor at the University of Chittagong, began an experimental research project through the provision of a small amount of credit to the rural poor in Bangladesh. The experiment was conducted by offering small credit solutions to the "unbankable" poor people (Tavanti, 2010). Consequently, the success of this experiment became the foundation for the Grameen Bank in Bangladesh and the replication of this model throughout the world. The attention for microfinance and its role in reducing poverty was further increased when the UN declared the year 2005 to be the international year of Micro-credit (Armendariz & Morduch, 2004).

The underlying logic behind the establishment of MFI is that by providing financial services to the poor in the form of credit or savings, they can invest, acquiring productive assets, increasing their skills levels, opening new businesses, etc. (Rooyen et al, 2012). Furthermore, microfinance programs are designed to provide small loans to people who would not have access to credit from the formal banks. Moreover, beyond credit provision microfinance institutions are increasingly providing additional financial services, such as savings deposits and insurance, to the poor (Tavanti, 2010).

2.2.Characteristics of Microfinance Institutions

The main feature that makes microfinance different from conventional financial service is not the financial service provided and not even in only servicing the poor, but in how the service is rendered. The methodology applied in the delivery of the various service and the institutional arrangement used in the provision of the service makes microfinance different from the conventional banking service provided to mainstream commercial bank clients (Degfe, 2009). Murray & Boros (2002) also mentioned some of the main characteristics of microfinance institutions in terms of their products, such as little amounts of loans and savings, short- terms loan repayment period (usually up to the term of one year). The Payment schedules of loans attribute frequent instalments or frequent deposits and the instalments made up of both principal and interest, which pay back in course of time. The interest rate higher than commercial bank, however lower than loan-shark rates, the interest rates on loan decreasing over several loan cycles and it considered as an incentive to repay on time.

The other characteristics of microfinance products are its simple application procedures and short processing periods (between the completion of the application and the disbursement of

the loan). Instead of collateral, microfinance intermediaries use alternative methods, such as, the assessments of clients' repayment potential by running cash flow analyses, which is based on the stream of cash flows, generated by the activities for which loans are taken. Moreover, the easy entrance to the microfinance intermediary saves the time and money of the client and permits the intermediary to have a better idea about the clients' financial and social status (Murray and Boros, 2002). The authors further indicated that the clients who pay their loan on time become eligible for repeat loans for the future loan term with higher amounts. Large size loans are less costly to the MFI, so some lenders provide large size loans on relatively lower rates.

2.3.Socioeconomic Status and Microfinance

Microfinance institutions are first and foremost driven by the concept that providing financial services to the people from the lower socioeconomic status that could efficiently and effectively contribute to income generation, provide asset investment strategies to smooth disposable income over time, and consumption stabilization. Furthermore, access to credit is believed to have positive outcomes on production, income, and consumption at household and macro-economic levels. It is generally agreed that poor households in developing countries lack adequate access to formal credit, especially people in rural areas (Zeller, 2011). Lack of adequate access to credit has a significant negative effect on such aspects as technology adoption, agricultural productivity, food security, nutrition, health, and overall welfare. Among others, the lack of collateral of the poor, their demand for smaller loans, and high transaction cost associated with small loans are the main factors that the poor are excluded from formal credit services (Diagne & Zeller, 2001). Therefore, microfinance institutions came into being from the appreciation that micro-entrepreneurs and some poorer clients can be 'bankable', that is, they can repay, both the principal and interest rate on time and also make savings, provided financial services are helping to suit their needs (Murray & Boros, 2002).

Women considered as one of the marginalized status holders in the community and they are mostly disregarded, and cannot easily access financial services. Due to this reason, most microfinance institutions including ACSI gives special focus to women as they are the ones who most suffer from all kinds of poverty and deprivation. At the same time, improvement in women's income can have an immediate impact on household poverty and nutrition situations. Women are encouraged to start some business activities to improve their bargaining power within the household by enhancing their "breakdown position" (ACSI, 2004). Moreover, the

empowerment of the low income and marginalized people especially women through the provision of credit services was one of the promised outcomes of participation in the microfinance programs. The application of empowerment had to be exercised through enabling them to participate in free markets and through the ability to engage in income-generating activities, which would increase the income of the poor people and the other marginalized sections of the population, and thus would enhance their self-reliance and self-confidence (Karim, 2008).

To provide easy ways of loans to the low-income and marginalized sections of the population microfinance institutions have recognized the group lending method. Therefore, studying the effectiveness of the group lending method is worthwhile to evaluate the microfinance institutions whether they are providing services in line with their initial objective or not.

2.4.Ethiopian Financial Sectors

When discussed the financial sectors, it consists of either the formal and informal financial institutions (or source of loans). This part of the literature would focus on those financial institutions (formal and informal sectors) and sources of credit that are available to poor people. Though the formal financial sector includes banks and microfinance institutions, this section focused on the latter one.

2.4.1. The Informal Financial Institutions

The informal financial institutions are institutions, which are not or are only partly controlled by the government's laws and regulations, and their operation is primarily based on trust and mutual knowledge (Dackauskaite, 2009). Informal lending and borrowing take several forms in Ethiopia. The most common and popular are the community based and more organized ones, *Equib*, and *Iddir*, which are common in both rural and urban areas of Ethiopia. Private moneylenders also exist throughout the country. In this mechanism of lending friends and relatives lend money free of interest (Degfe, 2009).

There are several reasons why people use the informal source of loans such as a loan from individual money lenders. Regarding the reasons for people's engagement in informal loans, Dackauskaite (2009) pointed out that poor people turn into informal lenders due to three predominant reasons. Firstly, the formal lending might not be present in town, village or area that the people live. Secondly, the people might not be able to provide collateral required by formal institutions, as the collateral is too high or the person has no collateral to pledge. Finally,

the clients might distrust the formal institutions or be uncomfortable with the bureaucratic procedures that one has to go through to get a loan.

An *Iddir* is one of the most common informal institutions in Ethiopia, it exists in both rural and urban areas. According to Pankhurst et al, (2009; cited in Johanson, 2010), *Iddir* is primarily a burial society whereby savings are made to cover the cost of funerals, but also weddings. In this system, whenever death happens among its members, the organization contributes an amount of money to handle the burial and other related ceremonies. It further aims to address different community concerns and provides various services to its members. Its membership is regularly by residence, whereby members pay a small monthly fee. Degfe (2009), also points out that *Iddir* is an indigenous institution in which members regularly contribute to a common pool in cash or in-kind, with a view of supporting a needy member based on varying criteria for membership. The other informal financial institution both in rural and urban areas of Ethiopia is *Equib*. According to Taye (2018), *Equib* is Ethiopian's indigenous informal rotating saving and credit association formed by groups of individuals who meet regularly (typically every weekend), and contribute to a common fund. Conventionally each member is eligible in turn to receive the pooled amount using a lottery or some other agreed-upon system.

Equib can be viewed both as an economic as well as social entity. Economically, through the mechanism of forced saving, it is believed to promote the entrepreneurial attitude of saving and hardworking among members, it has an interest free deposit and loan service, avail the opportunity of access to investment capital etc. with regard to social function, via its vital component of the festive ritual, the *Equib* gathering is bound to strengthen and solidify the spirit of sharing and companionship, mutual concern and responsibility, and other its virtue among its members which are effectively prerequisites for undertaking a healthy and predictable business transaction (Taye, 2018). However, there has been little effort made to integrate informal financial institutions with the formal sector except in the case of a few microfinance institutions (Degfe, 2009).

According to Siyoum et al. (2012) today the informal source of loans is decreasing in magnitude and frequency. About the loan repayment problems, it is very rare in informal credit systems. This is mainly because of the small size of informal loans and strong social relations that exist among community members. Their study indicated that, though there is a high repayment rate within the informal loans they are decreasing in their function as a result of the following two reasons: *first*, the introduction of formal credit institutions that undermine traditional lending

practices. Meaning that people have highly preferred to take loans from the government than from individual lenders because of the existing possibilities of taking larger loans with smaller interest rates within the formal credit institutions. *Second*, the inability of better-off people to provide loans to the poor. Due to poverty, there are very few people who can lend. The community as a whole is becoming less resilient and most people don't have enough grain or cash to satisfy their own needs let alone lend to others.

2.4.2. The Microfinance Institutions

Historically, the Microfinance services were introduced into Ethiopia after the demise of the Derg regime following the effort of the government to adopt the policy of economic liberalization. Thus, it took as a shift from government and NGOs subsidized credit program to financial service that run by specialized financial institutions. Thus, the regulatory framework (Proclamation No. 40/1996) was put in place as part of the government's effort to liberalize the financial sector and lay down an alternative institutional framework to provide financial service mainly to the rural poor to boost agricultural production, food self-sufficiency and reduce rural poverty (Degfe, 2009). This proclamation provides for the establishment of microfinance institutions. Since then, various microfinance institutions have legally been registered and started delivering microfinance services (Wolday, 2000).

The NBE report of 2015 indicated that there were 33 micro-finance institutions with a total capital of ETB 6.6 billion, which provides services for 3 million clients. They provided a variety of services such as collecting savings, providing group and individual loans, micro-leasing activities, micro insurance, and domestic money transfer services. Almost all microfinance institutions in the country have the issue of poverty alleviation as their primary objective. (NBE, 2015). However, still the demand for microcredit is far from the supply of it. Several reasons have mentioned by different scholars for the limited access of microfinance institutions. Haftu, et al (2009) pointed out that, one is since, most of the microfinance institutions in the country are relatively young. Moreover, even the existing institutions seem to replicate each other instead of innovating their approach. Their financial product is almost the same.

The potential demand for microcredit in Ethiopia is enormous. However, there is a very limited supply of financial services to poor households (Wolday, 2002). The major providers of loan or financial service in Ethiopia are formal banks, microfinance institutions cooperatives, NGOs which are involved in the delivery of financial services, government projects and programs involving in providing loans, semi-formal financial institutions (Equib, Iddir, Mahiber), and

informal finance (private money lenders, trader supplier credits, friends relatives). Among these credit providers, the conventional banking sector in Ethiopia has been too weak to serve the need of poor people due to limited branches and high collateral requirements. Moreover, the formal bank sector considers the poor as credit risks (Haftu, et al. 2009). Hence, microfinance institutions, which were mostly founded to fight poverty, play a big role in addressing the needs of people who are considered 'high-risk' by commercial banks.

Until the end of the 2016/17, the number of active borrowers from the 1,743 microfinance branches spread across the country was 4.6 million. The rank of these microfinance institutions is Omo, Amhara Credit and Saving Institution and Oromia Credit and Saving (OCSSCO) lead in terms of the number of borrowers with 1.2 million, 1.1 million and 946,577 customers, respectively. During the same period, the total deposit of all microfinance institutions throughout the country reached ETB 26.7 billion, while their assets reached ETB 55 billion. On the other hand, the total capital of microfinance institutions reached ETB12 billion (NBE, 2018).

According to the NBE report of 2018 based on the microfinance institutions capital level ACSI, OCSSCO and Addis Credit and Savings Institution are mentioned as the most capitalized microfinance institutions in Ethiopia. Among these microfinance institutions, the concern of this study delimited to the Amhara Credit and Saving Institution (ACSI).

2.4.2.1.Lending Methodology of Microfinance Institutions

As to the growth of several microfinance institutions, there is also the development of alternative lending mechanisms. Currently, though many microfinance institutions are increasingly providing individual loans, microfinance institutions are typically associated with joint liability or group lending mechanism. In general, Robert et al. (2007), pointed out the existence of numerous lending methodologies around the world's microfinance institutions. Nevertheless, the following three lending methodologies are more practical in our country's microfinance institutions. Group lending method is the most dominant lending method for most of the microfinance institutions because it assumed to substitute the physical collateral with social collateral thereby it improves the inclusions of the poorest within the credit scheme of the institutions. Though the concerns of this study are on the group lending method, the following discussion gives a highlight on some of the other lending methods.

2.4.2.1.1. Individual Lending

This type of lending method is a straightforward lending model where the loan is supplied directly to the people who need loans from particular microfinance institutions. It does not require the process of group formation and the subsequent peer pressures to ensure the repayment of loans. This type of lending method is available for those borrowers who have a fixed asset or monthly salary which can be provided as a guaranty. About this, Bangoura (2012) pointed out that this type of credit service is provided primarily for those entrepreneurs whose firm size is large enough and are generally located in urban areas. It may also have customers of small farmers in rural areas. To be beneficiaries of this method of lending the potential clients should have fixed assets that can be deposited as collateral or persons may act as guarantors of the borrowers.

The interest rates on individual lending from microfinance institutions are generally higher than those of banks but remain lower than those charged by informal individual money lenders. Most microcredit institutions that build on this approach require a guarantee and/or co-signers and do not impose the compulsory saving like that of the group lending method before the loan provision (Bangoura, 2012).

2.4.2.1.2. Credit Unions

A credit union is a unique member-driven self-help financial institution. It is organized by and comprised of members of a particular group or organization, who agree to save their money together and to make loans to each other at reasonable rates of interest. The members are people of some common bond, working for the same employer, belonging to the same church, labor union, social group, etc. or living and working in the same community. A credit union membership is open to all who belong to the same group, regardless of race, religion, color or creed. A credit union is a democratic, not-for-profit financial cooperative. Each is owned and governed by its members, with members having a vote in the election of directors and committee representatives.

2.4.2.1.3. Group Lending Method

The group lending method provides loan money to those people who, in the traditional banking system are not considered as creditworthy. So, when these poor people get the loan not based on any physical collateral but the basis of trust, they feel more attached to the bank and become creditworthy. This mechanism of lending is adopted from the philosophy of Grameen Bank (Hossain, 2013). Among several other mechanisms, group lending is one strategy employed to

boost repayment rates. Group lending consists of lending to a self-selected group of borrowers who are jointly liable for the loan. This mechanism may lead to higher repayment rates by mitigating moral hazards through joint liability and monitoring, solving limited contract enforcement through threats of sanctions and punishing in the case of default. Moreover, it overcomes the adverse selections of borrowers through exploiting information that potential borrowers have about each other (Al-Azzam et al. 2011).

The practice of group lending is based on the principle of distributing credit to individual members of groups who organize themselves without external intervention from the lending institution. However, the credits are awarded based on a limited economic analysis by the credit officer who also regularly visits each member of the group. The credit is distributed equitably to all members at least for the first loan. The total amount of the loan increases gradually when members demonstrate their individual ability to pay more money. Each group members have the collective guarantors of the loan repayment and credit is renewed only if all members have paid their credit (Bangoura, 2012). The provisions, as well as the repayments of loans highly, depending on the trust, network, and relationships of the borrowers (Hossain, 2013).

2.4.2.2.The Application of Group Lending Method

In many developing countries the majority of people living in extreme poverty. Usually, these poor have no access to loans from the formal banking sector, because they cannot be offered collateral that is acceptable by these banks. It implies that lack of having access to credit is one of the reasons why many people in developing countries remain trapped in poverty (Hermes et al., 2003). As a result, microfinance institutions established to help the poor to move out of poverty through the provision of small loans with a moderate level of the interest rate. The main instrument to make it possible is made by a group lending method. The basic idea of group lending method is that loans are made to individuals who are a member of a borrowing group; yet, all group members are responsible for the repayment of the loan money (Hermes et al., 2003).

Financial viability and capability to encourage welfare gains for the poor has led to replicate the Grameen model in developing countries in Asia, Latin America and Africa, and also in other developed countries. Likewise, many Ethiopian microfinance institutions implemented the Grameen model of group lending with the assumption of providing the poor with access to financial service to help them to increase their incomes and productivity.

Group lending generally refers to arrangements by individuals without collateral who get together and form groups to obtain loans from the lending institutions. The special feature of the “classic” Grameen Bank model is that the loans are made individually to group members, but all in the group face consequences if any member runs into serious repayment difficulties. The group composition in the original Grameen Bank case, the groups are made up of five people. In the Banco Sol case (it is Bolivia group solidarity model), groups can be as small as three people, and in the village banking system, groups can range from ten to about thirty women. The fundamental idea of “group responsibility” (“joint liability”) coupled with regular group meetings is common across approaches (Armendáriz and Morduch, 2004).

It must be emphasized that the Grameen Bank model is based on a specific ethnographic understanding of the poor in Bangladesh, and it is an understanding that society has certain norms (such as the norms of collectivism) that can be appropriate for microcredit operations. More importantly, the Grameen model sees the norms of collectivism as the defining social structure of the world of the poor (Akpan, 2005). Here, the question of whether such norms can be found in the case of Ethiopian microfinance institutions should be considered. In this regard, Ethiopian microfinance institutions, potential borrowers in the group lending method are required to organize a peer group that will commit to a mutual loan repayment guarantee. As Getaneh (2010) pointed out that the loans are delivered through small, affinity-based groups (usually five to seven members each) with about 10 to 15 groups meeting at one “Center.” Monthly (or more frequent) meetings are held to discuss group dynamics and collect payment and savings. Priority for credit is given to the poorest members of the society, especially to women. The Amhara Credit and Saving Institution are one of the Ethiopian microfinance institutions that employed group loans as a mechanism to provide credit services for the poor people and other marginalized sections of the population like women in the region.

Currently, ACSI is providing both non-agricultural and agricultural loans. While both types of loans are provided through the mechanism of group lending (Wolday, 2012). When the institution employed this method of lending compulsory savings serves as an alternative solution to the requirement of physical collateral by the formal banking system. The required compulsory savings vary across microfinance institutions. According to Wolday (2012), the minimum compulsory saving in the case of ACSI is 5% for installment saving and 3% for end term loans. The institution pays a 3-4% interest on compulsory savings. Although compulsory savings have the advantages of inculcation of the saving culture in the society, it is intended by

microfinance institutions primarily for loan security of the institution, particularly for those loans provided in the group lending method.

Moreover, trust assumed as a crucial thing within-group lending methodology. Hence, creating trust and a strong network among group lenders, necessary training for the enhancement of personal skills are strongly suggested by scholars as an essential element for the success of microfinance practice in general and this method of lending in particular. For instance, Akram and Routray (2013) pointed out that the value of trust and cooperation among the group members in enhancing the opportunity of lending the money and affordability to repay the loan. Trust among the group members influences the repayment rate. Because of the group members have trusted each other with a strong relationship, there is a lower possibility of default lantern during loan repayment. The author further forward, to build strong trust among the group borrowers, the relationship between them should be in line with the styles of broader social structures.

All the above-stated things about group guaranty lending model in the Ethiopian context is just explaining the framework of the model. However, the applications of the model varies across microfinance institutions in terms of number of group members, interest rate on loans and savings, nature of group formation and collateral situations etc. moreover, studying the application of group lending model in Ethiopian microfinance institutions with the special focus of the nature of group interaction and level of trust among group lenders; effectiveness of group lending model in addressing the extremely poor peoples' credit need is a crucial thing in order to be familiar with the effectiveness of group lending method in the context of a particular microfinance institution.

2.4.2.3. The Opportunities and Challenges of Group Lending Method

i. The Opportunities of Group Lending Method

The notion behind microfinance institutions group lending method is by making every member of the group responsible for the repayment of the group loan, and it believed that the entire group member benefited economically and socially. Clifford et al (2011) pointed out that, the group lending mechanism of microfinance institutions is intended to provide borrowers an opportunity to meet, make repayments, and discuss and exchange various social development issues such as health, education, business and other issues which have a valuable contribution for the group.

The practice of group lending model in the Ethiopian microfinance institutions is assumed by some scholars as a well-suited model of lending with the overall social structures in rural Ethiopia. This is not only because the model builds upon existing social structures of mutual support and communal life, but also because it removes the main entry barriers for the very poor, such as lack of collateral, limited literacy, weak technical knowledge, and little prior money management experience (Getaneh, 2010). The author also argued that the group lending method can serve as the main forum where members of the community can share valuable information about the business, markets, technology, politics, and other areas of interest by improving social networks within the group. Eventually, it helps them to develop strong social capital.

The other key potential advantage of the group lending approach is, apart from enabling poor people to access credit without material collateral, it is its ability to bring poor people together. Clients who take repeated loans and attend several meetings have an opportunity to share norms and values. Out of these shared values, trust within the group is strengthened, which can potentially help to facilitate social, economic, and political change. Trust between the group borrowers also lends itself to the formation of social capital as people learn to work together for a common purpose. Ultimately, the group lending experience develops bonds within the community and puts the welfare of the entire group over personal gain (Getaneh, (2010). Moreover, Fischer & Ghatak (2010) mentioned the following two advantages of group lending method: first, members of a cohesive community may have more information about one another (that is, each other's types, actions, and states) than outsiders. Second, a bank has limited scope for financial sanctions against poor people who default on a loan, since, by definition, they are poor. However, their neighbours may be able to impose powerful non-financial sanctions at a low cost. It allows poor people to utilize information about their neighbours and to apply non-financial sanctions to delinquent borrowers. Beyond discussed above, the group lending method has an advantage for the lender institution in many ways. For instance, by improving the repayment rate of the loan since the repayment problems are solved by providing loans to an individual borrower, who is a member of a borrowing group (Hermes et al, 2003).

Generally, the group lending method was supposed to benefit both the institution and the clients of the institution. But both the lenders and borrowers may not be benefited equally. Therefore, the following discussion focused on the challenges of the group lending method.

ii. Challenges of Group Lending Method

In the joint liability method, each group member is made responsible for the loans of other group members. If one member defaults, the other group members must cover the loan from their resources, and if they do not, they are denied from gaining access to future loans. It is thus in each member's interest to ensure that the other members pay (Brau and Woller, 2004). Even though the group lending method is believed to offer a solution for the poor who cannot offer physical collateral, after a while group lending technique becomes limiting the clients' interest who would like to continue participating in the microfinance program. They might not be able to do so because of the issues related to borrowing in the group (Dackauskaite, 2009). Fernando (2006; cited in Islam et al, 2012), also indicated that there have been existing borrowers of Grameen model of microfinance who face obstacles to pay the loan at a particular time for having higher interest charges. Borrowers only get the advantages of using the loan for their survival but they do not involve in generating profit, so they fail to pay a higher interest rate on their loan. It makes the microfinance institutions group lending method unsuccessful.

Studies indicate that clients of microfinance institutions experienced several challenges with the group loaning method. Among these challenges, one is the high-interest rate on the group loan. In this regard, one study that has been conducted in the case of poor AIDS-affected households in Kenya by Ngala and Obino (2016) pointed out that the group lenders exhibited a high-interest rate on loans. The study noted that in a statistical figure 96% of the cases reported the interest rates on group loan prohibitively high. Microfinance institutions that targeted the poor communities charged high-interest rates of between 16 percent and 22 percent per annum. The study further indicated that the amount of interest rate was not easy to come by especially from small scale businesses that the borrowers operated.

In Ethiopian context, the group lending model is considered as well-matched with social structures in rural Ethiopia because it builds upon existing social structures of mutual support and communal life, hence it removes the main entry barriers for the very poor, such as lack of collateral, limited literacy, weak technical knowledge, and little prior money management experience (Getaneh 2010). Yet the study conducted by Wegayehu and Kalaba (2017) indicated that the challenges with group lending method. For instance, some of the group leaders are not happy with the group collateral arrangements, the interest rate on the loan and saving i.e. low saving interest rate and high loan interest rate. Because the interest rate on saving is very small (3%) as compared to the lending interest rate (18%). The amount of loan allowed to take at a

time was also another problem. The amount their borrowing limited to a new client is an average of Birr 3,000. Many smallholder farmers also lack immovable assets such as land, making it difficult for them to secure loans.

2.5. Microfinance as a Poverty Reduction Device

In many developing countries the majority of the people live in excessive poverty. Usually, due to the poor have no access to loans from the formal banking system, because they cannot provide collateral that is acceptable by these banks. (Hermes et al. 2005). Hence, the microfinance institution has been widely promoted as an important tool for poverty alleviation and rural development (Zeller, 2011). Microcredit services by these institutions are assumed to offer poor people an enormous opportunity to engage in small scale business activities or improve their agricultural production. With the support of national and international organizations, many microfinance institutions across the country extend small scale loans to poor people in rural areas to help them advance their incomes and overcome poverty.

As formal lending institutions were not willing to give loans to the poor because of lack of collateral, high transaction costs and low profits, the role of microfinance was to fix this “market failure” by supplying credit to the “unbankable” poor (Dackauskaite, 2009). Microfinance institutions target the poor through group lending approaches which include group lending, progressive lending, regular repayment schedules, and collateral substitutes. Moreover, behind using microfinance institutions as a tool for poverty reduction, there are many debates on its effectiveness to achieve this goal of poverty reduction and sustainable and inclusive development. Some scholars argue on the positive contribution, some others pointed out the dual impacts of microfinance institutions such as both the positive and negative effects meaning it benefited the poor but not the extremely poor people, and also some scholars indicate the negative consequences of microfinance institutions credit services. The following discussion focused on the arguments of different scholars on the issue of using microfinance institutions as a poverty reduction device.

2.5.1. Debates on Using Microfinance as a Poverty Reduction Device

The schism of thoughts and divergence of views among scholars, donors, development agents, researchers, policymakers and practitioners on microfinance services ability to lift the poorest of the population out of poverty and inclusive development. Moreover whether they are effective tools in the lens of anti-poverty programs and to what extent they assist the bottom

poor to alleviate poverty have become the struggling ground of thoughts over the last two decades (Weldeslassie, 2019).

The underlying logic of microfinance institutions is that by providing financial services to the poor, for example in the form of credit or savings, they manage their money differently, investing, acquiring productive assets, increasing their skills levels, opening new businesses, etc. (Rooyen et al, 2012). The debates are related to whether microfinance institutions are achieving this mission or not. There are number of examples that can be shown as evidence for the success of microfinance as a tool for poverty alleviation. At the same time, it is not free from critics. Some available studies show that microfinance harms, as well as good, to the livelihoods of the poor.

The analysis by Tavanti (2010) revealed that it is a good tool in poverty alleviation but it has also become a good business. Today, microfinance institutions are divided between two contrasting views. For instance, Dhakal and Nepal (2016) argued that microfinance activities are more effective to reduce the poverty level by stimulating the saving and credit habit of people and encouraging the business activities by providing the loan facilities. Although the authors confirm that Microfinance institutions charged higher interest rates than the other banking institutions, which is because of its sustainability strategy, it was necessary to monitor the microfinance activities from the government to strengthen the capacity of management and promote the effectiveness of communities' services.

The other more mission-oriented and the socially-driven view represented by Yunus, known by the "father of microfinance " himself sees and had a fear of the profit-driven trends in microfinance institutions as contradictory to the movement's original purpose of alleviating and eliminating poverty(Tavanti, 2010). Moreover, promoters of this view of microfinance pointed out that macro policies are important, however, it takes time for them to have an impact, while the poor people are facing poverty and destitution at present. Thus, tools for immediate action are necessary that would directly attack poverty at the grass-roots level and they believe that microfinance is one of the tools to achieve that success. Still, in many developing countries the poor are forced to take up entrepreneurial activities in the informal economy, as there are few other employment opportunities. Yet to start or to expand income-generating activities investment is required that poor people often do not have. Hence, the role of microfinance is to provide credit that would enable them to take advantage of these productive activities, which would increase the chances of poor people to escape or alleviate poverty. (Woller et al., 2001)

Do microcredit programs help the poorest of the poor? Concerning this question, various studies have questioned these positive impacts and much more emphasized on mixed impacts of microfinance institutions. Meaning, they argued that microfinance institutions benefited for the poor but not for the poorest. In relation to this Scully (2004) argued that, the reality is that credit programs rarely include the poorest of the poor, it is due to the tiny loans required by the very poorest people are too small to generate significant interest income for lenders and are expensive to deliver, especially in the case of “hard-to-reach” rural populations. As the same author indicated, micro-lenders under pressure from donors to become financially self-sustaining in a short period are drawn toward less poor borrowers who can take out larger loans. In some cases, microcredit programs that target the poorest exacerbate the very poverty conditions they were designed to address. Some lenders attempt to cover the costs of lending to the poorest by charging high rates of interest (Scully, 2004).

Furthermore, other some scholars allude to the negative effects of microfinance institutions i.e. microfinance does harm the clients of the institutions. For instance, Bateman (2011) revealed that, at the beginning of microfinance, a claim made by Yunus when promoting microfinance to international donors was that “it would help to remove the poor from local loan sharks who charging higher interest rates”. In fact, by conferring social legitimacy upon microfinance, rather than loan sharks, the stage was set for the poor to become open to the idea of going into debt. Yet, today, unsustainable microcredit indebtedness is commonplace across developing countries (Hulme, 1997 cited in Rooyen et al, 2012).

The shift in the institutional orientation from microcredit (lending small loans to the poorest) to microfinance can be mentioned as one factor behind the poorest of the poor people’s exclusion from microfinance institution’s credit scheme In this transition, as Armendáriz and Morduch, (2004, p.15) indicated, in the case of microcredit, "the focus was explicitly on poverty reduction and social change, and the key players involved in the area were NGOs. The push to "microfinance" came with the recognition that households can benefit from access to financial services more broadly such as credit for microenterprises. This shift has come to a change in orientations of the institutions toward "less poor" households and toward the establishment of commercially oriented, fully regulated financial entities".

Besides the economic debate, some scholars criticized microfinance institutions in their political linkage with the government organizations. For instance, Nega and Schneider (2013) indicated that microfinance institutions can be used as an instrument by the state to control the

poor sections of the society for their political purpose. The authors explain further, the government uses the microfinance resource with the name of the vulnerable sections of the society for their political purpose and to dispense their ideology. However, the main beneficiaries of these resources are the supporters of the ruling party. The microfinance institutions used as a device to punish the opponents and to benefit the supporters in Ethiopian politics “party-owned MFIs are used to provide credit to farmers to buy agricultural inputs for the majority of the poor in rural Ethiopia. Party cadres and local government officials, who also sit on local MFI committees, then pick and choose the recipients of the microcredits, and thus the agricultural inputs, strictly on political criteria” (Nega& Schneider, 2014)²

2.5.2. Why Has Microfinance Not Worked as Hoped?

Microfinance institutions hoped as good devices in reaching the poor and the vulnerable sections of the population with their credit services. Hossain (2013) indicated that “Microfinance represents the distribution of small-scale loans mainly to the people who are living in extreme poverty and who do not have much access to the formal sources of finance. This is usually a kind of "collateral-free loan". By getting access to this loan, poor people will gain economic sustenance through this money for self-employment". However, the actual practice of microfinance institutions is not effective in encompassing the extremely poor people within their credit service due to several reasons. One of the reason indicated by Dackauskaite (2009) is members of the community would be unwilling to include the very poor people in group loans since they assumed, they would be a high risk of default. Since one of the group members is unable to pay his/her instalment it puts pressure on the whole group, as they have to cover the missing instalment.

Hamada (2010) indicated that “the practices of microfinance continue to evolve and are rapidly expanding in terms of scope. This extension was the outcome of the good reputation for the performance of microfinance over several decades which led to a new phase in microfinance. This new phase of Microfinance has attracted the attention of various groups who consider it as a good business opportunity. As a result, the microfinance “field” has changed into a microfinance “industry,” and the pleasant era that just celebrated the success of Grameen Bank is now over. Muhammad (2015) cited in Shamit (2016) also indicated that, though Yenus claims that social businesses are “cause-driven rather than profit-driven” and do not

² This paper was presented at the annual meeting of the Association for Evolutionary Economics, January 3-5, 2013 in Philadelphia. Accessed on January 4/2019 from <https://www.tandfonline.com/doi/pdf/10.2753/JEI0021-3624480210?>

compromise social objectives, in reality, multinational corporations use these social business partnerships to target poor communities and generate profits in the name of helping the poor. Therefore, instead of poverty reduction, Grameen Bank's success should be attributed to its corporate expansion and establishment of a new kind of financial industry.

Bateman (2011) also indicated that the Growing dependency upon microcredit, coupled with high-interest rates, means that a growing proportion of the unstable income of the poor is siphoned off to cover interest charges. He further explained as follows:

While microfinance institutions charge lower interest rates than local loan sharks, they are still seen as imposing high-interest rates on poor clients. In the early days, many microfinance institutions said this was necessary to cover the high operational costs of providing tiny loans to the poor, but that interest rates would fall through competition. This argument had some validity initially. However interest rates have not fallen as much as predicted, and some countries (notably Mexico) have remained very high. In part, this is because of the emphasis on the commercial model, with microfinance institutions now required to generate high financial rewards for their managers (salaries, bonuses) and owners/shareholders (dividends and capital gains) (Bateman, 2011, p.3).

His argument exhibited by taking Compartamos in Mexico as the case of his observation, further he indicated that the personal rewards have run to tens of millions of dollars for key managers, while the interest rates for its mainly poor women clients have remained very high.

In the case of Ethiopian microfinance institutions, the arguments of Taye (2018) in one of his article entitled "Why the Grameen model microfinance will not deliver in the land of *Equib*" indicated that, in relation to addressing the basic problem of poverty, the model is unsuccessful to achieve its ultimate objective due to the origin (it is directly imported), nature (since microfinance credit groups formed at the request of outside government or non-governmental agency running the program hence the relationship between them become superficial). In general, institutional and organizational problems deter many microfinance programs from delivering the major promises they have set out to achieve. He indicates his observation in relation to the Grameen model of microfinance in the Ethiopian context as "Now that microfinance programs are increasingly becoming a multi-million dollar aid industry involving many peoples with vested interests, without a doubt the time may not be too far to come when

they will be regarded as the least promising means to bring poverty an end the very noble objective they are first and foremost conceived to attain” (Taye, 2018).

2.6. Empirical Studies in the Ethiopian Context

Despite the growing importance of microfinance provision to the productive poor people, there are a few studies have been conducted in the area. Particularly on the various lending methods of microfinance institutions and their socio-economic contribution to the poor people. Among various lending methods that are used by many Ethiopian microfinance institutions is the group lending model. This model is used by these institutions to encompass low-income people within their credit services. Therefore, to understand the impact of microfinance institutions on the lives of poor people, studying the various lending practices of ACSI is worthwhile. Particularly examining the nature of group formation, composition and level of trust among the group borrowers helps to be familiar with the effectiveness of group lending mechanisms in comprising the extremely poor people within the institution’s services. Moreover, Challenges and opportunities of group lending method in comparison to other lending methods are the other fundamental issue.

Nevertheless, many studies in the area of Ethiopian microfinance institutions focused on general issues such as the performance assessment of microfinance institutions. Meaning they have focused on how to improve the institutions' performance rather than the impacts of it on the clients of the institution. For instance, the study conducted by Adeno (2007), on the Outreach and Sustainability of the Amhara Credit and Saving Institution, and the study indicated that the institution was operationally and financially self-sufficient at 119.9% and 115.3% respectively. The study also revealed that ACSI is among a few microfinance institutions which can achieve the highest efficiency at the lowest cost per borrower. Thus this study emphasized the institutional aspects rather than situations about the clients of the institution. The other study conducted by Hasan and Batra (2018) aimed at assessing the performance of microfinance institutions in Ethiopia, and by selecting thirty-one microfinance institutions for performance assessment. The finding indicated that the Ethiopian microfinance institutions are growing fast in terms of financial sustainability and outreach. Since this study has a very broader scope, therefore it primarily depends on the quantitative data and documentary sources rather than the voice of the clients of the institutions. The result also pointed out that in terms of access there are millions of people that need financial service. The access issue is one of the main problems of the rural people but recently the effectiveness of

existing financial services in benefiting the extremely poor people becomes a crucial issue. As some scholars reflection, this problem emanated from the commercial orientations of microfinance institutions thus they strive to make a profit at the expense of the poor. Therefore, despite the performance assessment of the institutions, assessing the effectiveness of various lending methods of microfinance institutions is very crucial. Accordingly, there are various lending methods currently applying by Ethiopian microfinance institutions. From these lending methods, group lending method is the most widely used method by these microfinance institutions to incorporate the low-income sections of the population within the microfinance institution's credit service..

Furthermore, the study also conducted by Fekadu (2011) on the overall outreach and sustainability performance of the Amhara Credit and Saving Institution, the result indicated that the institution has made its positive contribution to the clients to increases in wealth condition and gave priority to the rural poor women. But this study does not identify which model of lending is effective to improve the wealth conditions of the poor. The other study by Dilayehu (2014), on assessing the accessibility of credit, credit methodologies and procedures, and contributions towards poverty reduction. The result of this study indicated that the Omo microfinance institution is reaching the excluded poor segments in the rural area with financial products. Moreover, the credit scheme has improved the clients' income, asset holdings, access to various social services. This study revealed that, since the institution strictly requires group formation by self-selected potential borrowers as a precondition to access the institutions' loans, as a result of this the situation excludes the target productive poor from accessing credit service. Moreover, Siyoum et al, (2012) indicated that providing initial capital for self-employment credit can, in theory, help poor people to move out of poverty and food insecurity. But in practice, the role of the credit services in lessening the poverty level and long-term livelihood improvement of the clients is not as beneficial as claimed by its proponents. This study primarily conducted to make a comparison between microfinance loans and food security package loans, and to make an assertion on which one benefited the clients more. The finding shows that food security package loans are more benefited households more than microfinance loans. Therefore these studies invite to make an assessment on the effectiveness of various lending methodologies of microfinance institutions in general and the most widely used method of lending i.e. group lending in particular especially in the areas which are not included under the food security programs. To this end, this study confined to assess the ACSI lending practices the case of Kuarit woreda. This institution is the sole financial service provider in the rural area

of Kuarit Woreda. This Woreda is not part of the food security program of the region. Therefore, this study focused on the effectiveness of group lending method in comprising the extremely poor people within the institution's credit service; nature of group formation, interaction and trust among group borrowers; clients feeling with regard to group lending method in comparison to other lending options; challenges and opportunities of borrowing in a group.

2.7. Legal Framework of Microfinance Institutions

To enhance the development of the micro-financing business the Ethiopian government provided business proclamation (i.e. Micro-Financing Business Proclamation No. 626 /2009). It was ratified by the House of People's Representative. According to this business proclamation, the main purpose of a micro-financing institution shall be to collect deposits and extend credit to rural and urban farmers and people engaged in other similar activities as well as micro and small scale rural and urban entrepreneurs. Moreover, the maximum amount of which may be determined by the National Bank.

Accordingly, this proclamation indicated that a micro-financing institution carries out some or all of the following activities:

- a. Accepting both voluntary and compulsory savings as well as demand and time deposit.
- b. Drawing and accepting drafts payable within Ethiopia.
- c. Extending credit to rural and urban farmers and people engaged in other similar activities as well as micro and small-scale rural and urban entrepreneurs
- d. Micro-insurance business as prescribed by the directive to be issued by the National Bank.
- e. Purchasing income-generating financial instruments such as treasury bills and other short term instruments as the National Bank may determine as appropriate.
- f. Acquiring, maintaining and transferring any movable and immovable property including premises for carrying out its business.
- g. Supporting income generating projects of urban and rural micro and small scale operators.
- h. Rendering managerial, marketing, technical and administrative advice to customers and assisting them to obtain services in those fields.
- i. Managing funds for micro and small scale businesses.

- j. Providing local money transfer services.
- k. Providing financial leasing services to peasant farmers, micro and small-scale urban and rural entrepreneurs per the Capital Goods Leasing Business Proclamation No. 103/1998; and
- l. Engaging in other activities as specified by directives of the National Bank from time to time.

In addition to specifying the abovementioned activities of microfinance institutions, the micro-financing business proclamation provided a direction on how the loan should be delivered.

Extending of the Loans: An authorized institution may extend loans to groups and individuals. Loans may be made without collateral, secured by collateral or secured by group or individual guarantees as appropriate and at the discretion of the institution. On the other hand, The National Bank of Ethiopia may set the limits on the maximum credit to be extended by a micro-financing institution to any individual or group and provisioning for problem loans.

Limitations on Loans and Repayment period: The directives (Directive No. MFI/17/2002), issued by the National Bank of Ethiopia under the power vested in it by article 41 of the Monetary and Banking Proclamation and article 25 of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996. A micro-finance institution may grant fresh loans exceeding the ceiling prescribed by Directive No. MFI/05/96. However, the aggregate amount of such loans extended in any one year shall not exceed 20% of the total disbursement of the micro-finance institution in the preceding year. The maximum loan amount extended to anyone borrower in line with article 3.1 shall not exceed 0.5% (half a percent) of the total capital of a micro-finance institution. The maximum repayment period for the loans extended in line with article 3.1 and 3.2 shall not exceed 5 years. All other loans of a micro-finance institution (a) extended to anyone borrower shall not at any one time exceed Birr5, 000 (five thousand birrs) and (b) the repayment period of such loans shall not exceed 24 (twenty-four) months. Lending to non-members and types of collateral microfinance institutions shall predominantly make credit available based on group guarantee and to borrowers who have joined a membership arrangement. (Directive No. MFI/17/2002).

2.8.Theoretical Framework

2.8.1. The Theory of Social Capital

The driving concept behind the theory of social capital is that a person's position within a particular group provides certain returns that work to their advantage. From the perspective of social scientists, social capital stresses on commonality to strengthen communities. It is "the cumulative of the actual or potential resources which are linked to possession of durable networks or more or less institutionalized relationships mutual acquaintance or recognition." (Bourdieu, 1985; cited in Portes, 1998)

Coleman (1988) pointed out that social capital defined by its function and it is a combination of different entities, but two elements in common: they all consist of some aspect of social structures, and they facilitate certain actions of actors-whether persons or corporate actors-within the structure. He further explained that like other forms of capital, social capital is productive, making possible the achievement of certain ends that in its absence would not be possible. Unlike other forms of capital, social capital inheres in the structure of relations between actors and among actors (Coleman, 1988). In his explanation of social capital, Coleman specifically his places of interest are the roles of mutual obligation, expectations and trustworthiness, social norms, social sanctions, and the transmission of information.

The concept of Social capital has been used as a conceptual and theoretical framework to describe structural or functional attributes of communities and groups (Putnam, 1995). In a broad term, it encompasses the norms and networks that facilitate collective action for mutual benefit. It would expect the communities with high stocks of social capital to be safer, cleaner, wealthier, more literate, better governed, and generally ``happier" than those with low stocks, because their members are able to do and keep good jobs, initiate projects serving public interests, easily monitor one another's behaviour, enforce contractual agreements, use existing resources more efficiently, resolve disputes more cordially, and respond to citizens' concerns more punctually (Woolcock, 1998). Moreover, social capital exists between individuals and by extension can be accumulated by the individuals. It is all about establishing relationships purposefully and employing them to generate intangible and tangible benefits in short or long terms. The benefits could be social, psychological, emotional and economical (Portes, 1998). According to Cassar et al. (2007), social capital may consist of aspects such as general trust of individual group members in the society as a whole, specific trust of one individual towards one or more group members, acquaintanceship among group members, and trust based on

(positive) experiences with other group members in the past related to repayment of loans. Here, the author focused on the importance of social ties (social capital) in determining the repayment performance of groups. The main advantage of this approach in comparison to other approaches is that it permits to sort out different aspects of social capital within groups and their effects on group performance. Cassar et al. (2007) argue that repayment by individual members depends on their belief that other members will do the same since this will determine whether or not credit will be available to them in the next loan cycle. This belief depends, at least partially, on the existence of social capital within the group.

Generally, the social capital theory is that network, trust, and norms, which can improve society's efficiency by facilitating coordinated action (Karlan, 2007 cited in Hadia & Kamaluddin, 2015). In the case of group borrowers, it assumed that the higher network and relationship within the group leads to create strong trust among group borrowers. Therefore, trust, network and relationship can replace the requirements of physical collateral with social collateral thereby the poorest would be beneficiaries of the credit services. Therefore, this study employed the concepts of social capital theory and it was helpful to examine the real practices of the borrowers and the institution in group lending method.

2.8.2. Joint Liability Model

Poverty is a major problem in most developing economies, absence of access to credit also presumed to be the cause for the failure of the poor to come out of poverty. Because lending to the poor involves high transaction costs and risks associated with information asymmetries and moral hazards (Stiglitz and Weiss 1981; cited in Befekadu, 2007). Nevertheless, in several developing economies governments have intervened, through the introduction of microfinance institutions to minimize the gap then allow the poor access credits. One of the best mechanisms to provide credit access to the poor who, in the traditional banking system, are not considered as creditworthy is a joint liability model. So, in the assumption of a joint liability model, when these poor people get the loan not based on any physical collateral but the basis of trust, they feel more attached to the bank and become creditworthy (Hossain, 2013).

With joint liability lending, the group of borrowers is made responsible for the repayment of the loan of an individual group member, meaning all the group members are jointly liable. The advocates of group lending argue that joint liability lending provides clear incentives to borrowers to monitor and screen each other. Moreover, the monitoring and screening of group members are efficient and cheap, because members usually live close to each other and/ or have

social ties. When social ties are present, group members are supposed to be well-informed about each other's projects and that this information is almost freely available. Ideally, then, the microfinance institution does not need to take care of the monitoring and screening of group members (Hermes and Lensink, 2007). Therefore, the joint-liability model has a positive contribution to microfinance institutions (lenders) by reducing screening, monitoring and enforcement costs. Hence, according to Fischer and Ghatak (2010), the primary movement of theoretical work on microfinance focused entirely on joint liability. The idea that joint liability can help to reduce the major problems facing lenders screening, monitoring, auditing, and enforcement by utilizing the local information and social capital that exist among borrowers.

Group lending upon mutual monitoring (joint liability) was the innovation of Grameen Bank that allowed it to grow fast, as it allows poor borrowers to act as guarantors for each other rather than the mandate of providing physical collateral. With this innovation, loans were provided to households organized as a group and act as collateral for one another removing the physical collateral requirements and replacing it with community trust and shared accountability to ensure the repayment of loan balances (Aghion and Morduch, 2004). Consequently, this model employed throughout the world including Ethiopia.

Hadia & Kamaluddin (2015) indicated the social collateral model consists of social capital (trust and network), group pressure and training is used as a supporting mechanism to encourage loan repayments and support the borrowers in creating human capital and economic capital. The model has an advantage of providing guidelines to the MFIs in disseminating the loan to the borrowers in an effective manner and it provides an easy way for weighing the ability of the borrowers during the loan repayment. Despite, a vital social collateral model would also contribute to MFIs in terms of the financial and managerial sustainability of the institution in the microfinance industry.

Some papers in this area also emphasized the role of social ties between group members in reducing moral hazard behaviour by individual members. Hence, strong social relationship among group borrowers helps them to build social capital. In this regard, Putnam (2000) claimed that the joint liability model rest upon the prominence of social capital for mutual benefit. The central idea of social capital resides upon the networks and the associated norms of reciprocity have value. They have value for the people who are in them, and they have, at least in some instances, demonstrable externalities, so that there are both public and private faces of social capital. According to Floro and Yotopoulos (1991; cited in Hermes et al., 2003),

the importance of social ties in MFIs is explained in terms of the consequences of non-repayment of one member from the group for her or his position within an existing social network since non-repayment will have a negative impact on the other group members' current wealth and future access to loans. Strong social ties may help the process of peer monitoring and peer pressure. It is believed that due to these social ties members may have better information to monitor and may more easily pressure the repayment of the loan.

Joint liability can do better for poor people than conventional banks for two reasons (Fischer and Ghatak, 2010): First, members of a close-knit community may have more information about one another than outsiders. Second, a bank has limited scope for financial sanctions against poor people who default on a loan, since, by definition, they are poor. However, their neighbours may be able to impose powerful nonfinancial sanctions at a low cost. An institution that gives poor people the proper incentives to utilize information about their neighbours and to apply nonfinancial sanctions to delinquent borrowers can do better than a conventional bank.

According to Fischer and Ghatak (2010), the term joint liability can be interpreted in several ways, which can be lumped under two categories:

Explicit joint liability: when one borrower failed to repay his/her loan, group members are contractually required to repay in his/her stead. Such repayments can be enforced through the threat of common punishment, typically the denial of future credit to all members of the defaulting group, or by drawing on a group savings fund that serves as collateral.

Implicit joint liability: That is, borrowers believe that if a group member defaults, the whole group will become ineligible for future loans even if the lending contract does not specify this punishment. One form in which this can happen is if the microfinance organization itself chooses to fold its operations when faced with delinquency.

By and large, this theoretical framework assisted to evaluate the experience of group borrowers within their group. The other concerns of this study was examining the nature of interaction and the extent of trust among group borrowers, and the effectiveness of group lending method in including the poorest sections of the society within the credit scheme of the institution. In this regard, the basic features of social capital such as trust, norms, and networks that can improve the living standards of individuals and societies in general by enabling joint actions. Moreover, the joint liability model assumed that it enables to use the advantage of local information, peer support, and pressure among the group borrowers. In this case, the social collateral is more important than physical collateral. Thus, the poorest can get the advantages

of taking the credit service by using their social capital rather than their physical capital. Therefore, this model helps to analyse the empirical data which were collected from the respondents.

CHAPTER THREE

3. RESEARCH METHODS AND MATERIALS

3.1. Descriptions of the Study Area

3.1.1. Location and Population

This study was conducted in the case of the ACSI Kuarit branch. Kuarit is one of the woredas and a part of the West Gojjam Zone in the Amhara Region of Ethiopia. The major town in Kuarit is Gebeze Mariam. Kuarit is a small rural town located 429 km far away from Addis Ababa. The woreda is divided into 30 kebeles (2 urban kebeles and 28 rural kebeles). It is bordered on the southwest by the Jabi Tehnan, on the west by Sekela, on the north by Adet, on the east by the East Gojjam Zone on the north-east by Gonji Kolela and on the Southeast by Dega Damot woreda. Kuarit woreda is the source of Birr River that contributes to the Blue Nile River. Based on the 2007 national census conducted by the Central Statistical Agency of Ethiopia (CSA), this woreda has a total population of 114,771, of whom 56,767 are men and 58,004 women; only 4,750 or 4.14% are urban dwellers (CSA, 2007).

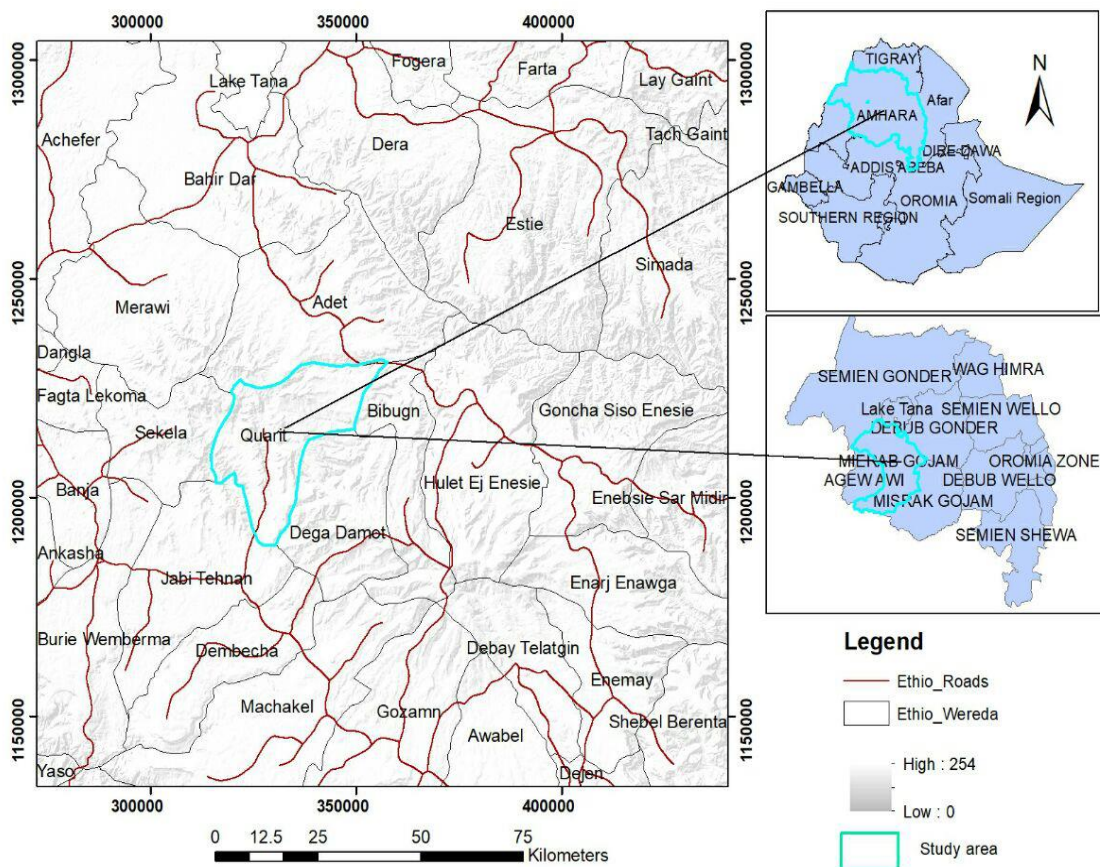


Figure 3.1. Geographical map of Kuarit woreda (author's construction)

3.1.2. Livelihood

The woreda is predominantly agricultural and a large percentage of the population practices mixed farming. Teff, maize, bean, pea, vetch, potato, barley, and wheat are the main crop types and mostly cultivated in the woreda. The majority of the rural inhabitants practiced subsistence farming or a kind of "hand to mouth" tradition. Agricultural labouring is another, very limited source of cash. Agriculture in the area is predominantly rain-fed and is very vulnerable because the distribution of rainfall is uneven and is characterized by late-onset and early cessation. Agricultural productivity is low due to land degradation and topographic barriers.

The average land size is one hectare per household³. It indicates the average land size is very small and insufficient to support all the family members of the household. The opportunities for off-farm activities in the area are also very limited. As a result, large numbers of households are vulnerable to chronic food insecurity. Due to this and lack of other options to generate subsistence level income, large number of the population migrates every year to other productive areas both legally and illegally. This implies that even though microfinance is said to be an effective device to mitigate several social and economic problems of active poor people, still there is a huge gap to do so in the area. ACSI started its work in the area (Kuarit) in 1998 with the mission of improving the economic situation of the low income, productive poor in the Amhara region. Primarily through increased access to lending and saving services and by maintaining cost-effectiveness in service delivery and by integrating its activities with government and non-government organizations working towards achieving food security and poverty alleviation. Currently, there are two sub-branch offices of ACSI in Kuarit Woreda i.e. Gebeze Mariam and Genet Abo branches. This study mainly focused on the clients of the Gebeze Mariam branch.

3.2. Description of the Institution, the Amhara Credit and Saving Institution Profile

3.2.1. Establishment and Shareholders

The operation of Amhara Credit and Saving Institution (ACSI) is traced back to 1995 when it was initially initiated by the Organization for the Rehabilitation and Development in Amhara (ORDA). It is an indigenous, local non-governmental organization involved in development activities in the Amhara region. The aim of ORDA is bridging the gap of formal institutions to meet the need of small-scale borrowers in income generation schemes (ASCI, 2004). Organization for the Rehabilitation and Development in Amhara (ORDA) was established in

³ Kuarit woreda rural land administration, 2009 E.C

1991 primarily to provide relief to people affected by drought and the war against the previous Dergue regime. In a move to depart from the more usual direct provision of relief, the NGO created a department to supply small amounts of credit to rural people on a pilot basis. That department grew into a separate institution by following the launching of Proclamation No. 40/1996 which requires all existing microfinance providers in the country to register. ACSI was licensed as a separate microfinance share company in April 1997 and the shareholders are; the 25 percent share of ACSI has been taken by the Amhara State Government, Amhara Development Association (ADA) has 20 percent share, Amhara Women's Association (AWA) has 10 percent and Endeavour also has 10 percent share. ADA is a non-profit NGO established in 1992 and engaged in primary health and basic education, skills training and other development activities in the Amhara region. Endeavour is a local NGO engaged in the development of agro-industries that facilitates agricultural production and processing. AWA is a member-owned, donor-funded association engaged mainly in promoting and mainstreaming women's issues in development (Dlamini and Brislin, 2006). In addition to the above-mentioned shareholders, ACSI has other major donors and supporters such as SIDA, IFAD, USAID, Packard Foundation and others (ACSI, 2004).

ACSI served over 1.4 million clients by the end of 2009, this makes the institution the largest microfinance institution in the region. It operates through its headquarters in Bahir Dar, in all Woredas of the region. In terms of area coverage by the end of 2009 E.C ACSI has coverage of 99% or 3396 of the total kebeles in the region with 204 sub-branches and 15 micro-banks (ACSI, 2011 E.C). Upon establishment, its initial capital was just three million Birr. At this time, it managed to expand it to more than 3.8 billion birrs. Currently, ACSI has also close to 430 branches. Furthermore, recently, ACSI has requested the National Bank of Ethiopia (NBE) to be given a green light to transform into a full-fledged banking institution⁴

ACSI has four major dimensions of objectives behind its establishment. These are: promoting agricultural and non- agricultural economic activities in the region (i.e. the productivity objective), alleviating poverty and inspiring the region's economic growth as well as giving priority to rural and remote communities particularly women (i.e. the outreach objective), significantly increasing the clients' income and asset position (i.e. the impact objective) and

⁴ The reporter, 30 March 2019, accessed from <https://www.thereporterethiopia.com/article/amhara-savingto-go-mainstream-banking>

promoting sustainable services, both operational and financial (i.e. the institutional sustainability objective) (ACSI, 2004).

3.2.2. Products of ACSI

In terms of services, currently, ACSI delivers five types of financial products/services, namely, credit, savings, money transfer, pension fund management, and micro-insurance services. By considering the very limited capacity of the institution to satisfy all the credit demand in the region, ACSI is so far been providing the credit only for income generation and related purposes. Thus, the current loan products can be broadly categorized as income-generating (instalment and end-term), as well as asset loans. The instalment loan product, mainly for petty trades, manufacturing, and handicrafts, etc. involves lesser risk for the institution as well as for the clients as loans are often settled in small amounts. The institution also encourages such products. But agricultural loans, with payments coming only at the end of the term, dominates. Moreover, the institutions' loan provided in the form of a group collateral and asset collateral lending system. Asset collateral system is the provision of loans by holding an asset as a security for the loan such as houses, car, land and other fixed assets. This form of collateral system mostly employed for urban customers. The other collateral system employed by the institution is group collateral (ACSI, 2004). This system is assumed as a possible method for reaching the poorest that does not have any physical collateral. In this regard, Getaneh (2010), indicated that in the group lending method a group is taken as social security, each group member guarantees for the rest of the group members. Groups are formed by the borrowers themselves without any external pressure or interventions that break their interest and willingness.

Concerning saving, ACSI provides saving services for loan clients as well as for the public at large. Generally, the institution's saving services have two types; compulsory savings (exclusively for loan clients) and voluntary savings (ACSI, 2004).

In the case of voluntary saving, one can and withdraw money whenever the saver wants. The voluntary savings are designed to both the clients and non-clients. The institution pays a 3-6% interest rate on voluntary savings. The other saving service provided by the institution is compulsory (forced) saving. The amount of compulsory savings varies across microfinance institutions. The amount of compulsory saving for ACSI monthly installment saving is 7% and 10% for end term loans (the loans which returned at the end of the loan term). The institutions pay a 3 % interest for compulsory savings (Wolday, 2012). Moreover, ACSI serves as a local

agent of the pension and social security has the authority to disburse pension in areas where ACSI has a sub-branches. The other service of the institution is local money transfer, particularly the transfer is from one institution to another (ACSI, 2004).

3.2.3. Beneficiaries of the Credit Service

Microfinance has been widely promoted as an important tool for poverty alleviation and rural development. It is driven by the concept that providing financial services to the poor could efficiently and effectively contribute to income generation, provide asset investment strategies to smooth disposable income over time, and consumption stabilization (Zeller 2011). Microfinance institutions primarily established to provide small loans to the poorest people usually in groups so that the borrowers can invest the money in some business or related entrepreneurial ventures and improve their social and economic conditions. Almost every country around the world adopted a microfinance program to address the credit demand of extremely poor people.

ACSI is one of the largest microfinance institutions in the Amhara region of Ethiopia. The total population of the Amhara region is 20,401,000⁵. Among these number of population of the region, ACSI has around 1.4 million clients. From total clients, 70-80% are rural people (ACSI, 2004). Life in the rural area of Amhara farming society is hard because of the geographical location is the main barrier. Many of the people live in the mountainous areas making it difficult to travel and gain different services including the opening of the financial institutions. The Amhara Credit and Saving Institution (ACSI) is the only financial institution relatively available in most remote areas of the region. As the institutional profile of ACSI indicated it has its branch office in all woreda/ districts of the region. In general, the institution (ACSI) established to provide credit services from extremely poor people to middle-income sections of the society. However, the institution used different priority criteria since its incapability of providing credit services for all people of the region who demand the credit service.

Due to the scarcity of loanable funds and the limited capacity of the institution to address all the credit needs of the people in the region, ACSI has priority criteria. Hence, the priority is given to those areas that are more food insecure, the women, and to the low income "active

⁵ Federal Democratic Republic of Ethiopia, The population of the regions of Ethiopia according to census results and latest official projections (2007) (2015) Central Statistical Agency of Ethiopia. Accessed on March 17, 2019, from <http://www.citypopulation.de/Ethiopia.html>

poor". The prospective clients are identified through a joint assessment by using different targeting techniques. The joint assessment was conducted in collaboration with the Woreda and Kebele administrators, development committee and ACSI field workers. Moreover, the credit service primarily targets the rural people in terms of area targeting. Thus, at this time 70-80% of ACSI clients are from rural peoples at the regional level (ACSI, 2004).

3.3. Research Approach

This study has employed methodological triangulation wherein the qualitative approach was used as the predominant approach and the quantitative research approach as a supplementary one. The reason behind using mixed methods research approach was the emphasis of this study is on the socio-economic issues such as the contribution of group loans on the living conditions of the borrowers and its effectiveness in comprising extremely poor people; the nature of group formation, interaction, and trust among group borrower. Moreover, this study also examines the challenges and opportunities of the group lending method and the reason why they are using ACSIs' loan services rather than other loan sources. Therefore, the above-mentioned issues invite to use both qualitative and quantitative approach. Furthermore, since a single research method is not able to address a certain issue adequately, this study employed triangulation. As Yeraswork (2010) indicated triangulation is the utilization of different sources of information, data, and methods in the same research project. The reason behind employing triangulation is all research methods have their advantages and their limitations. Combining several methods in a single piece of research to supplement and check-up others.

Among the focus of this study is clients' view of the advantages and challenges of group lending method, the nature of group formation and level of trust among group members, and why they use ACSI credit service rather than other informal financial loan sources such as *Equib*, *Iddir*, *Mahiber*, and traditional money lenders. Thus, the qualitative approach is most appropriate to allow the respondents to describe their experiences and knowledge in their voices. The voices/words of the clients would be helpful to generate in-depth information from the field. Hence, it helps the researcher build an understanding based on their experiences.

On the other hand, investigating the role of the ACSI group lending method on the living conditions of the clients was the concern of this study. To understand the economic contribution of the group lending method and other material aspects using a quantitative approach would be helpful for this study.

3.4. Research Design

This study employed a descriptive cross-sectional study design. The reason behind using this research design is because in this study the data were collected at one point in time from selected sample respondents.

3.5. Data Sources

To achieve the objectives of this study, both primary and secondary sources of information were consulted from different sources. The primary sources of information for this study were informants, focus group discussants such as the clients and workers of ACSI branch office who know their client's situation and the diverse services of the institution. The secondary sources of data were generated from different available institutional documents, both published and unpublished materials from web sources, articles from both the local and international sources, different books and literature dealing with the issues of this study.

3.6. Methods of Data Collection

A combination of different qualitative data collection instruments was employed such as in-depth interviews, key-informant interviews, focus-group discussions, and different documentary data analyses. Moreover, survey method was employed to generate quantitative data.

3.6.1. In-depth Interview

The study employed in-depth interview in order to gather detail information about the group formation and nature of interaction, attitudes of the clients on the credit services provided by ACSI in comparison to other informal sources of financial loans; the advantages and challenges of group lending (the feeling of clients on group lending method); the extent of group credit services on addressing the extremely poor peoples' credit demand; the impact of the loan on their living condition and other related issues. For an in-depth interview, 10 respondents (among the group borrowers) were involved. The selection was based on the borrower's willingness and their position within the group (group leaders). An interview was conducted by using a guiding list of questions to raise during the interview.

Furthermore, the study employed a key-informant interview. This method is important whereby the well-informed informants provide the researcher with rich and detailed information on the subject of inquiry (Kaufman, 2005). The key-informants were workers of the institution (ACSI, Kuarit branch) who have deep knowledge (as a result of their experience and position within the institution) about the diverse services of the institution and the effectiveness of group

lending method in changing the lives of the clients. The interview was conducted with 4 workers of ACSI one was the branch coordinator and the rest three were workers in different positions of the institution. Thus, this method was found helpful in generating valuable information on the applications of the group lending method by the institution and its impact on the socio-economic development of the borrowers.

3.6.2. Focus Group Discussion (FGD)

Focus-Group Discussions were employed to generate qualitative data to supplement and substantiate the data that were generated through questionnaires, in-depth interview and key-informant interviews. Moreover, the method was found useful to generate information concerning the nature of group formation, composition, interaction and nature of a trust; opportunities and challenges of borrowing in a group and other related information from the clients. For this purpose, the group discussions were conducted with two groups of discussants (one group have six members and the other discussion was conducted with the group which contained seven members). The discussions were conducted in line with the client's previous group which were formed for their purpose of group loan. The discussions were conducted by using the list of discussion guiding questions.

3.6.3. Survey Questionnaire

The questionnaire was used as a tool for primary data collection. The questions were provided by including both open-ended and close-ended items and it was designed in accordance to translate the research objectives into specific questions. The questionnaire was included background information about clients such as sex, age, educational status, marital status, place of residence, and occupation. It also helped to assess the client's time length of their membership from the institutions' credit service and the extent of change brought as a result of the institution's loan. By using the questionnaire this study could to examine the loan purpose during the loan application and the extent of the client's loan utilization for the intended purpose. Moreover, both the open-ended and close-ended questions were helpful to investigate the sufficiency of the loan to achieve the intended business, the extent of interest rate, and the extent of change realized as a result of the institutions' loan on the life of borrowers. The questionnaires were administered by the researcher and other four assistant data collectors since the majority of respondents were illiterate. The field survey was conducted with a sample size of 234 randomly selected clients.

In addition to the above-mentioned data collection instruments, documentary analysis from various documented data sources like government regulations and micro-financing business Proclamations, and different directives of microfinance institutions were used. Moreover, different available institutional documents, books, thesis, dissertations, and journal articles dealing with the issue under investigation were employed.

3.7.Sampling Techniques

In this study, both probability and non-probability sampling techniques were employed. ACSI has two sub-branches in Kuarit woreda i.e. Gebeze Mariam and Genet Abo (recently opened). Gebeze Mariam branch was selected randomly. It was by considering the availability of clients (it has a large number of clients) and the geographic location. The selection of respondents/study participants for the interview purpose (both from the clients and workers of ACSI Kuarit branch office) was done through purposive sampling techniques. The selection of informants from the ACSI branch office was based on the consideration of their knowledge (due to their position and experience) about the overall activities of the institution and its contribution to the area community. Moreover, the respondents for questionnaire purposes were selected based on a simple random sampling technique.

3.7.1. Sample Size

To determine the sample size the widely used formula which has been provided by Yamane (1967) was used. Accordingly, the sample size for this study was 234 respondents who were selected by simple random sampling technique from the study population (clients of the selected branch). These respondents were selected to collect data through a questionnaire.

$$n = \frac{N}{1 + N(e)^2}$$

Where: n = the required sample size

N = the total number of population (group borrowers) = 566

e = the level of precision which is equal to 0.05.

Based on this formula the total sample size of this study was 234

3.8.Methods of Data Analysis

The data analysis has followed both quantitative and qualitative research approaches. The qualitative data that were generated through in-depth interviews, key-informant interviews and focus group discussions (i.e. the non-numerical data), analyzed qualitatively with careful

interpretation of meanings and contents. The data were organized into different themes based on the research objectives. The researcher took detail notes during the interview sessions in Amharic. Since all the data were collected using local language (Amharic), it was directly translated into English by the researcher with great emphasis to maintain the originality of the data while translating it into English. Concerning qualitative data presentation, a descriptive presentation of the data in a reflexive and narrative manner was employed.

The quantitative data that were generated through the questionnaire was presented by using descriptive statistics such as frequency and percentage distribution tables, graphs and pie charts, and it is supported by qualitative interpretation. Finally, the researcher tried to link the findings of this study to the study of other researchers to show the extent to which the findings in this study reflect, or differ from the findings of others.

3.9. Ethical Considerations

In this study, the following ethical issues were taken into account in all stages of the research process. Concerning ethical issues in the study participant, the initial stages of data collection procedure were begun by making a rapport with respondents and other concerned bodies by asking their willingness and cooperation to give the required information after announcing the objective, purpose, and significance of the study. All things in the field were performed based on their informed consent of the respondents. Furthermore, great care was taken when sharing information from other researchers and other literature.

3.10. Limitations and Challenges of the Study

In this study, all of the respondents were active clients during the data collection. Hence, non-clients and dropped-out clients were not included in the study. The study also delimited to the case of the ACSI Kuarit branch thus it is difficult to generalize the ACSI regional context.

One of the challenges in this study was the bureaucratic procedures of the institution. The study was conducted in the case of West Gojjam zone, Kuarit woreda branch of ACSI. To conduct the study (to collect the data), it was mandatory having a letter of support from the head office of ACSI (Bahir Dar). Therefore, doing this was very costly in terms of finance and time.

CHAPTER FOUR

4. DATA PRESENTATION AND ANALYSIS

The primary focus of this study was the borrowers of the institutions' credit service under the group lending method. To this end, the study looked into aspects such as nature of group formation and level of trust among the group borrowers; the effectiveness of group lending method in including the extremely poor people; contributions of the institution for the clients living condition; challenges and opportunities of group lending method in comparison to other(individual) lending method; and the reasons why clients use ACSI credit service rather than other informal financial loan sources notably *Equib*, *Iddir*, and traditional money lenders. To this effect, the study has employed methodological triangulation i.e. mixed methods research approach wherein the qualitative approach was the dominant one. The informants for the qualitative methods (such as Key informant interview, in-depth interview and FGDs) were selected purposively. Furthermore, as part of the quantitative approach, a total of 234 survey respondents were selected by employing simple random sampling techniques. Accordingly, Questionnaires, key informant interviews, in-depth interview and focus group discussions (FGD) were employed as the major methods of data collection. This chapter presents the socio-demographic profiles of the study participants followed by an assessment of the data based on the specific objectives of the study.

4.1.The socio-demographic Profiles of the Study Participants

Under this sub-section, the socio-demographic characteristics of the study participants (clients of the institution) such as age, sex, marital status of the respondents, place of residence, educational level, and occupation are presented.

4.1.1. Age of the Respondents

Age is one of the requirements for eligibility to get the loan money from the microfinance institution. Accordingly, an individual looking for credit from the ACSI must be the productive poor in the productive age group (Potential clients need to be between 18 to 65 years of age). The productive poor refers to the person who is already engaged (or ready to be engaged) in some productive business activities but is handicapped due to lack of capital⁶.

⁶ ACSI, 2004. Institutional profile, current status, and future strategies

Table 4.1. Age distribution of the respondents

Age of the respondents	Frequency	Percentage
18- 23	4	1.61
24- 29	30	12.9
30- 35	60	25.81
36- 41	75	32.26
42- 47	42	17.74
48 and above	23	9.68
Total	234	100

Source: (survey data, 2019)

As the above table shows 75 (32.26%) of sample clients were between 36-41 age group, 60 (25.81%) of them were between 30-35 age group, 42 (17.74%) of respondents were between 42-47 age group, 30 (12.9%) of sample clients were between 24-29 age group, the rest 23 (9.68%) and 4 (1.61%) of respondents were above 48 and between 18-23 age groups respectively. The above data imply that youths have limited access to the institution's credit services because 18-29 age group covers only 14% of the total sample clients.

4.1.2. Sex of the Respondents

Concerning sex of the clients, given special emphasis to women believed by most of the microfinance institutions. This is due to women's marginalized position in society put off them from easily gain access to financial services. Moreover, they are the ones who most suffer from all kinds of poverty and deprivation. Hence, improvement in women's income can have an immediate impact on household poverty and nutrition. Women are encouraged to start some business activities to improve their bargaining power within the household. The following chart represents the percentage distributions of sample clients based on their sex.

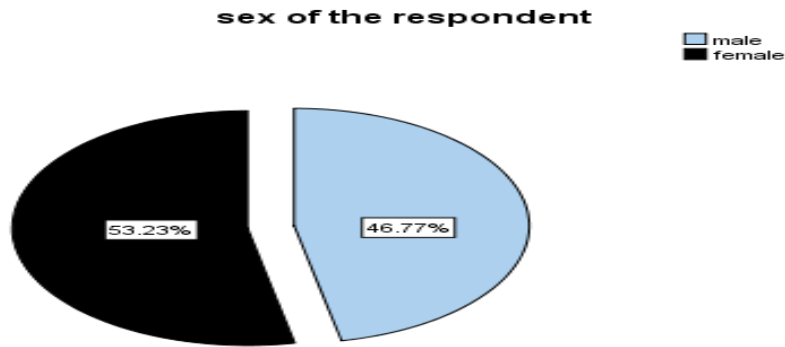
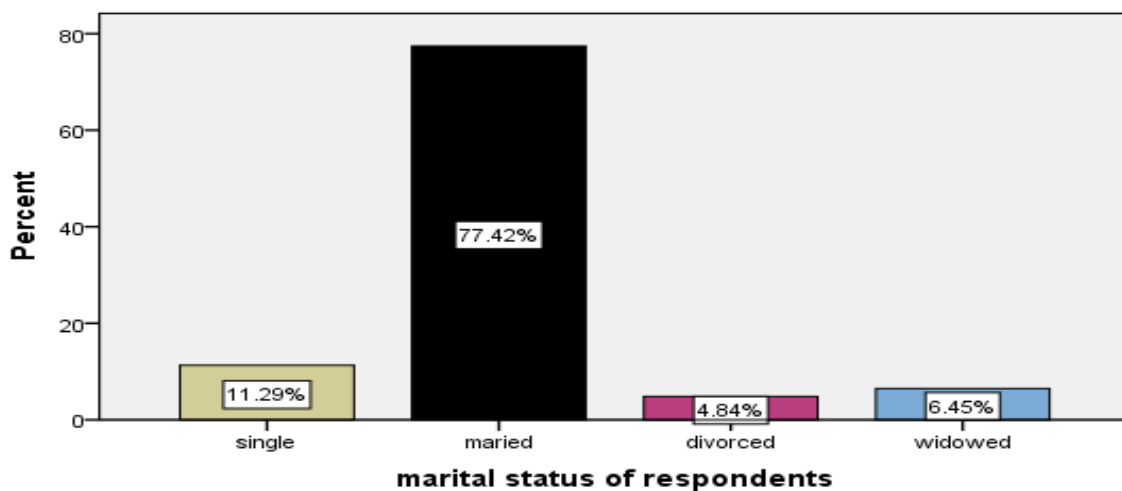


Chart 4.1. Percentage distribution of sample respondents based on their sex

The above data depicts percentage distribution among male and female credit users of the institution. Accordingly, 125 (53.23%) of sample clients were female while 109 (46.77%) of the institution's credit services were provided for male clients. Therefore, there is no large difference between female and male clients of the institution. In this case, though more than half of the clients were female, it requires further investigation about whether the women manage her own business themselves, jointly with her husband or her husband run business activities after the loan was taken by the women borrowers.

4.1.3. Marital Status

The following graph indicates the percentage distributions of sample respondents based on their marital status.



Graph 4.1. Marital status of sample respondents

As the above graph shows the majority 180 (77.42%) of sample clients of the institution were married, 27 (11.29%) of sample borrowers were single, 15 (6.45%) were widowed and the rest 12 (4.84%) were divorced. This implies that the largest share of the institution's loan distributed for those married clients. This might be the result of the group borrowers as well as the institution has a low level of trust in those single, divorced and widowed clients. In this regard, for instance, the study conducted by Fikadu (2011) indicated that single borrowers are assumed to be less loyal to the institution since they (the selection committee or lender institution) assumed them as they would not voluntarily repay the loan they borrowed.

4.1.4. Place of Residence

Concerning the place of residence of the sample clients, the majority of respondents 215 (91.94%) were from the rural area. Only 19 (8.06%) of respondents were from urban areas. Therefore, the majority of the institutions' loans were going to those groups who are living in rural areas. Hence, the proportion of lending to urban areas in a group lending method is limited.

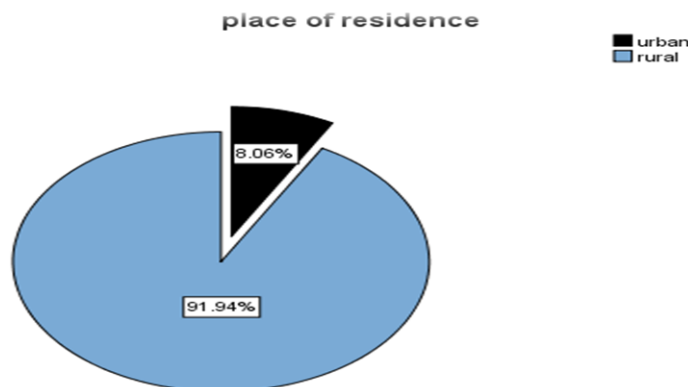


Chart 4.2. Distribution of sample respondents based on place of resident

As the above data indicates the majority of sample clients were from the rural area. Concerning this, the institution mentioned the following rationality behind its focus on the rural area at the regional level⁷:

First, Agriculture being the dominant sector in the region, through providing income and employment opportunities for over 85% of the population, it can positively affect the lives of many by just improving agriculture.

⁷ The Amhara Credit and Saving Institution, 2018, brochure. Bahir Dar

Second, by considering the poverty situation of the region, the highest rate and depth of poverty are in the rural population. Thus impacting agriculture and the rural areas can improve both aspects of the poverty situation in the region.

4.1.5. Occupation

Table 4.2. Distribution of sample respondents based on their occupation

Occupation	Frequency	Percentage
<i>Agriculture</i>	198	84.62
<i>Small trade</i>	17	7.26
<i>Handicraft</i>	6	2.56
<i>Service</i>	4	1.71
<i>Others</i>	9	3.85
<i>Total</i>	234	100

Source : (Survey data, 2019)

The above table indicates the distribution of sample respondents based on their occupational engagement. Accordingly, the largest number of sample clients 198 (84.62%) were engaged in the agricultural sector followed by small trade 17 (7.26%). The rest 6 (2.56%), sample clients were in the industry of handicraft, 4 (1.71%) service, and 9 (3.85%) others. This implies that agriculture is the dominant sector for those clients who were engaged in this study.

4.1.6. Education

Table 4.3. Distribution of respondents based on their educational status

Educational status	Frequency	Percentage
<i>Illiterate</i>	175	74.19
<i>Able to only read and write</i>	26	11.29
<i>Grade 1-4</i>	7	3.23
<i>Grade 5-8</i>	15	6.45
<i>Grade 9-12</i>	7	3.23
<i>College and above</i>	4	1.6
<i>Total</i>	234	100

Source: (survey data, 2019)

The data on the educational status of the respondents indicates 175 (74.19%) of sample respondents were illiterate, 26(11.29%) were able to only read and write, 7(3.23%) of sample respondents attained 1-4 grade, 15(6.45%) of respondents attained grade 5-8, and the rest 7(3.23%) and 4(1.6%) of sample respondents attained grade 9-12, and college and above

respectively. This indicates that, since the majority of the clients of the institution were illiterate, they necessitated exhaustive training about business skill development. Most of the borrowers were not even well aware of the percentage of the interest rate of the loan they are paying. The institution (ACSI) workers are always undertaking every financial issue for these clients.

4.2. Group Formation, Interaction, and Nature of Trust Among Group Borrowers

4.2.1. Client Selection Procedure

Client selection is one of the pre-lending activities of borrowing from microfinance institutions. These are those activities that take place before any actual disbursements are made, but are considered an integral part of the lending process and vital to the success of the institution. As ACSI's lending program statement indicated that the credit service essentially targets the "productive poor": those if appropriately assisted could by themselves create the activities that could enable them to get out of poverty. The selection of these "productive poor" is conducted through different kinds of targeting criteria such as area and individual targeting when potential borrowers request the institution to borrow money. Potential customer selection is mainly conducted by teamwork consisting of the kebele and woreda administrators, development committee and the institution's field workers. In this regard, one of the informants from ACSI Kuarit branch office explained the process of identifying potential borrowers as follows:

To be the beneficiaries of our institution's credit services, the clients are selected by an organized committee of kebele administrators and development committee in collaboration with the institution's field workers. This committee has the responsibility of evaluating the behaviours of potential clients such as their motivation to work, personal manners, and family situations. The committee could further conduct an assessment of the residential status of such borrowers; whether he/she is the permanent resident of the kebele or not. Once the evaluation by this committee is done, potential borrowers are allowed to organize themselves in a group to get the loan money (Key Informant #2: February 25, 2019).

As the above informant pointed out the institution uses the information collected by the credit committee to assess the borrower's creditworthiness and ability to repay. Furthermore, the above-stated selection procedure of individual targeting is guided by the general criteria

prescribed by the regulation of the institution. With this respect, the following specific yardsticks are mentioned and documented within the institution's profile outlined in 2009.

- ✓ Potential clients need to be between 18 to 65 years of age and economically active.
- ✓ Potential clients must be in the category of the poorest of the poor, owning not more than an ox or an asset of its equivalent; in other words, it should have a low annual income (unable to cover their annual expenditures).
- ✓ The potential customers need to be creditworthy, with a good reputation among the community that can be confirmed by the local credit and saving committee as well as the staff of ACSI and not has previous debt from other sources.
- ✓ He/she should present a business plan that also confirms the availability of the market for the product/service loan is requested for.
- ✓ Willingness to be a member of the credit group and abide by the laws of the group.
- ✓ He/she must be willing to save some part/percentage of his/her business income at ACSI.
- ✓ The potential customers should be a permanent resident in the community.
- ✓ He/she should be free of any mental illness or other illnesses that prohibit from working, and he/she should be free from any socially unacceptable behaviours.

As noted above, these standards are used as a guiding principle for the credit-worthiness of potential borrowers. Nonetheless, even when potential borrowers fulfil the abovementioned criteria they would not straightaway receive credit services from the institution. Rather they are required to form their group before receiving credits. The task of forming the group is, however, exclusively geared towards the potential borrowers without any external intervention from the institution workers. Therefore, understanding issues related to how the potential borrowers form/organize their group, the group composition, and other requirements helps to comprehend the effectiveness of the group lending method in including extremely poor people within the institution's credit scheme. Thus, an account of how this process is mediated is presented in the forthcoming discussion.

4.2.2. Group Composition, Size, and Other Requirements

Since individual loans by nature require borrowers to provide physical collateral in the form of fixed assets, it is more available for salaried people or those who have fixed assets. Hence, in a bid to benefit low-income people and those who have not fixed assets group lending model has been introduced by most microfinance institutions. In this method of lending physical collateral is supposed to be substituted by "group guarantee" and borrowers are required to do self-

selection and organize themselves to share a mutual loan guarantee. In connection to this, asked about how groups formed, composition, and size of the group, coordinator of ACSI's Kuarit branch pointed out the following:

The poor cannot provide physical collateral for their loan, thus ACSI follows the group lending method. In this method, the group is used as social security for repaying the loan in case a member of the group refused to repay later on. Each member of the group is a guarantee for the rest of the group members. Hence, a group of borrowers usually get organized constituting of 3 to 7 individuals. However, there is no distinction in terms of gender during group formation. Afterward, the group chooses their leader that can represent them while dealing with the institution (Key informant #1: February 25, 2019)..

The researcher asked the branch coordinator about other specific requirements expected from group borrowers while borrowing in a group and he revealed the following:

Before the loan distribution, each borrower in a group must save at least 10 % of the loan they want to borrow as a compulsory saving (for end term borrowers). For monthly instalment loans, the client must save at least 7% as a compulsory saving. The compulsory saving will serve as an assurance to cover the loan if the client defaults occurred among the group members. The compulsory saving also used as an instrument intended to develop clients' saving habits (Key informant #1: February 25, 2019).

As explained above, each group is expected to choose its group leader. The leader serves as a bridge that connects group borrowers and the institution. Field workers of the institution usually deal with the group leader about the group during their field supervision. The overall responsibility of the group leader is performed in line with the institution's guidelines. For instance, the leader is responsible for submitting loan applications of members, monitor and follow-up loans that are given to members and timely repayments, assist credit and saving officers in saving and repayment collections, etc.... He/she also has a responsibility to witness the collection of loans whether it has been done properly or not. This implies that the activities of the group leader put the institution in a position to save monitoring and supervision costs as well.

Moreover, the group formation procedure is guided by the institution's principles, which states; Group members should have no family ties. It is preferable if members in a group have more

or less similar economic capacity or living status and live in the same area⁸. Furthermore, it is also preferable that members in a group could take a relatively equal loan amount. Yet, a group of borrowers who are organized in the same group may not necessarily get an equal amount of loans due to different reasons. Regarding this, one of the informants from the institution noted the following during an interview with him:

In the group lending method, all group members may not get an equal amount of loans. The loan amount varies depending on several factors such as collateral situations, the amount of loan that the clients wanted to borrow, type of activity that the clients engaged in, past credit history of the clients, institutional capacity, etc. (Key informant#2: February 25, 2019).

Beyond the group formation, still the question is how much group lending method is effective in benefiting the poorest from microfinance institutions credit service, is that group lending method collateral free as it is stated by microfinance institutions? Who would be more beneficial from this method of lending? The institution or the clients? Or both? Therefore, the forthcoming discussion deals with the foregoing question and other related issues.

4.2.3. Nature of Group Formation; Implication for the Inclusions of the Poorest

4.2.3.1. Collateral Requirements

Hossain (2013) indicated that microfinance represents the distribution of small-scale loans mainly to the people who are living in extreme poverty and who do not have much access to the formal sources of finance. It is usually a kind of "collateral-free loan". More specifically, these types of loans are well associated with the group lending model as discussed earlier. The subsequent discussion, therefore, gives a highlight of whether such arguments are true in the case of this study or not. To this end, the discussion is focused on the nature of group formation procedure and the collateral situations during group formation.

In the theoretical framework part, it was discussed that the group lending method creates an incentive mechanism to the clients of the institution in which each group member has an interest in screening and monitoring the other members, and to enforce repayment if necessary. Accordingly, after the evaluation of the client's behaviour in line with the client's selection criteria of the institution, potential borrowers are allowed to organize themselves in a group to get the loan. During the group formation, each member of the group has an awareness that they

⁸ ACSI, 2004. Institutional profile and future strategies

would be at risk if one of the members of the group fails to repay his/her loan. Furthermore, they are mindful of the fact that they would get banned from accessing loans in the next loan cycle. Having this in mind, they are cautious in selecting credible members that can join their credit group, to monitor other members' activities once they received the loan, and to enforce repayment in case a group member fails to pay his/her loans later on. In a bid to understand the perspectives of borrowers concerning group formation procedure questions were posed to FGD participants, and one of the discussant from the focus group discussion had to say the following:

We do not rush and randomly form groups with anyone else. Because we all know that we would be at risk if we include someone unknown. Hence, we form the group with those borrowers who have their land certificate (green book), house, livestock or other physical assets that would be used as a guaranty for future consequences. For instance, if he/she refused to repay his/her loan after getting the loan, the group members would sell off the defaulting member's house, livestock, land, and other assets through legal procedures in order to cover the loan of the defaulters (FGD, February 29, 2019).

The researcher allows another man from the discussants to reflect on this. He too reveals that they are usually emphasized on having assets as a precondition to be part of a loan group.

As you see here, our group has seven members and we all have a property for this purpose. Therefore, having a physical property as a guaranty is mandatory to form a group because if we don't do that someone may took the loan money and then leave his/her domicile or refused to pay later on. Our group has experienced such kinds of client default before. We learned a lesson from the previous and now we are very cautious during the group formation stage (FGD, February 29, 2019).

The above explanation of the discussants implies that the group formation procedure exclusively belongs to the potential borrowers without any external intervention from the institutions' workers. The borrowers are composed of self-selected groups into a microfinance credit scheme and they create their specific kind of collateral to reduce the costs/risk from member's dropout before completing their loan. These physical collateral created by group borrowers include having livestock, house, land and other physical assets. In this context, findings by this study show some deviation from the original assumption of Hossain (2013) and some others. As Hossain noted microfinance institutions distributed small-scale loans mainly to those people who are living in extreme poverty and who do not have much access to

the formal sources of finance. According to his argument, *it is usually a kind of "collateral-free loan"*. Yet, as noted from the above-stated response of discussants, having physical collateral during the group formation is found to be a mandatory thing to be beneficiaries of the institution's credit services. This kind of collateral formation by the potential borrowers is intended to minimize client dropout before the end of the loan term. But this practice of group borrowers on the other hand systematically excludes the participation of poor people into that particular group. Hence, by looking into the group formation, it can be argued that the loan system in the group lending method is not physical collateral-free.

Moreover, the institution cannot directly involve on the borrowers' group formation process. The group formation is handled without the intervention of the institution's workers. Concerning the group formation procedure, the ACSI Kuarit branch office coordinator reveals the following:

The potential borrowers usually organize their group by themselves based on their free interest without any intervention from our office. Since the whole group members are responsible for the repayment of the loan money, we do not have the right to force them and give orders to include other members without their interest at the initial stage of group formation. If all the group members have a "land certification book" they are required to submit a copy of it for our office. However, if only one of the group member has the certificate and trust on the rest of his/her group members, we need only one persons' land certificate ("green book") for the guaranty of the whole group (Key informant#1: February 25, 2019).

Asked about why the institution took a neutral position during the group formation stage of borrowers, the coordinator again responded the following:

Allowing the borrowers to organize their group in line with their free interest helps to reduce client defaults from that group. If we intervene in the group formation and recommend them to add some other persons without their consent, members would refuse to repay the loan of defaulters in that group later on. Because they would say that it's the institution that imposes us to include members without the consent of the group members. By doing so, the loan recovery rate of the institution has reached more than 98% at this time (Key informant#1: February 25, 2019).

The informant's explanation implies that the group lending method helps the institution in reducing the cost of screening, monitoring, and enforcement of repayments. Because if client

dropout has happened the group borrowers as a whole would be responsible for the repayment of the loan of the defaulters. Thus all members are active and conscious in the group formation as well as the repayment of the loan. The group members are also conscious that failing to repay the loan means all borrowers in the group will be denied access to loans of the institution in the future. Due to this reason, members in group lending method usually monitors its fellow members and administer the group activities through elected group leader rather than being directly governed by the institution. Therefore, it resulted in a positive impact on the institution's loan repayment rate. For instance, the institution distributed a total of 67,350,753 ETB in 2010 E.C, the loan repayment performance of the institution in this particular year was 100%.⁹ In the subsequent year 2011 the institution distributed a total of 92527480 ETB from this amount, 91232095 ETB repaid at the end of the loan term¹⁰. This indicated that the repayment rate of the institution in this year was more than 98%. It implies that this method of lending is benefiting the institution in securing the repayment of loans. With this regard, findings by this study show some similarities with that of Hermes et al. (2003)'s, argument. They indicated that the "group lending method benefited the lender institution by improving the repayment rate of the loan since the repayment problems are solved by providing loans to an individual borrower, who is a member of a borrowing group".

Although ACSI is primarily sought to include the poorest into the credit service of the institution through the mechanism of group lending method, it is safe to say that the loan provision in this method is yet not to be functional without any physical collateral. Therefore, it is a little hard to say the institution's credit service is a kind of collateral-free loan as it is defined by some scholars and also as it is indicated by the general working principle of microfinance institutions. For instance, Ramanaiah and Gowri (2011) noted: "group lending as a methodology removes the main entry barriers for those with no collateral" is no way near to what the findings reveal in this particular study. So far, in the case of group lending method, only a massive shift from providing physical collateral directly to the institution (just like what individual borrowers are required to do) into providing a guaranty to the group is observed.

4.2.4. Nature of Relationship and Trust Among Group Borrowers

As stated at the theoretical framework, Hadia & Kamaluddin (2015) proposed that the social collateral model consists of social capital (trust and network), group pressure and training is

⁹ ACSI, Kuarit Woreda 2010 E.C loan repayment performance data.

¹⁰ ACSI, Kuarit Woreda 2011 E.C loan repayment performance data

used as supporting mechanism to encourage loan repayments and support the borrowers in creating human capital and economic capital. It would also help in the improvement of the living conditions of the borrowers. At the same time, this model also provides guidelines to the microfinance institutions in disseminating the loan to the borrowers in an effective manner and it provides an easy way for weighing the ability of the borrowers during the loan repayment. This would ensure the survival of the borrowers in the microfinance program and lead to the enhancement of their social and economic growth. Consequently, it would contribute to the microfinance institutions in terms of financial and managerial sustainability of the institution in the microfinance industry.

As it is discussed above, in the group lending method the loan is not given to the individuals rather it is given to a group of three to seven members. As a result, the loan repayment almost becomes a collective effort since the default of one member is the risk of other members in the group. In this case, peer pressure acts as an important issue. The whole group members can remain eligible for further loans only when their past repayment record was good and the group must be free from defaulters. Hence, though each member receives the loans, the group entirely must remain careful about the repayment of loans and interests in due time. In this case, both associates need to trust and be trusted with each other since the negligent behaviour of one member within the group may affect the future of the whole group members. Building trust requires mutual commitment and also more than other things, building trust within a group takes time. Thus, trust is a vital element in every member's relationship within a group for the successful implementation of the group lending method. Therefore, having a mechanism of upholding trust within the group members is a crucial thing for group borrowers.

With this regard the borrowers were requested to respond on the mechanism their group used to uphold trust within the group members, one of the respondents among the group borrowers pointed out the following:

At the time when a group is commenced, we do not allow those borrowers who do not have the asset such as oxen, house, land... to join our group. Therefore, the whole group members must be well aware of the property of each member. Besides, we have also established our own rule to manage the group member's relationship and repayment performance. For instance, latecomers among the group members during the monthly repayment period of the loan would be subjected to financial punishment per the group's rule. Though their place of residence is far-off between group members, due to fear of

financial punishment the group members attended on time during meetings and pay their loan at a time (Respondent #1: February 29, 2019).

The above-stated response of the informant on the nature of trust among group borrowers reveals that, the trustworthiness of an individual client within the group is determined by his/her physical collateral she or he has, such as, land, house, oxen and other assets rather than a strong relationship or network that exist /develop within the group members. It also implies, after the loan distribution, the repayment performance of the group members is the crucial thing more than the trust and network within the borrowers. Thus, rather than trust, relationship, network and social capital identified by the general theoretical framework as a pillar in the group lending method, the repayment performance of borrowers is guided by the strong instrumental controlling mechanism that is developed by the group members.

Social trust and cooperation among the group members would have enhanced the opportunity of lending to those “asset less poor” people. Through creating strong trust and relationships among group borrowers, it would be possible to minimize the likelihood of default in repayment time and enhance the inclusions of the poorest within the group lending scheme of the institution. However, as it can be understood from the above excerpts trust appears to be instrumental that depends based on the asset status of the potential borrowers rather than social trust that depends upon intrinsic relationships. Therefore, it can be concluded that the group lending method limits the contribution made to poor people's livelihood.

Moreover, to build strong trust among the group borrowers, the relationship between them should be in line with the trends of broader social structure. Nevertheless, only the two meetings with the clients (both monthly and general meetings) are believed by the institution as a device to build trust among group borrowers. The following response on the nature of interaction among group borrowers by the key informant from the institution worker supports this:

The group borrowers meet with a one month interval in their locality. The field workers from our institution lead and facilitate these meetings. During these meetings, the borrowers evaluate the repayment performance of their group members, the extent of loan utilization, and the participation of members... Likewise, the institution also prepared general meetings with the borrowers at the main office within a three month interval. For that reason, the borrowers have four general meeting schedules within a single loan term. These two aspects of meetings help group members to trust each other

by improving the interaction and relationship among them (Key Informant #3: February 25, 2019).

The above response of the informant implies that the two meetings (monthly meeting and the general meeting) help the group members to meet each other so that they can develop trust within the group. Moreover, beyond these two meeting schedules, the chance of encounter between group members is rare. This is understood during interviews with the group borrowers. Accordingly, the clients were requested to reply on the circumstances of contact between group members somewhere else other than the above two occasions. In this regard, among ten purposively selected samples of group borrowers for an interview purpose (most of them were group leaders), nine of them reply that the two meetings i.e. monthly meetings and general meetings help them to meet each other. Besides, these clients reacted that they had no contacts before with most of their group members in terms of informal institutions and associations such as *Equib*, *Mahiber*, and *Iddir*. Concerning this one of the group borrowers who is a leader of his group explains the nature of the interaction as follows:

Though there are some group borrowers who have a kinship relation and connections in terms of Mahiber with their group members, most of the time being the resident of similar kebele helps them to form the loan group rather than their pre-existing interaction and encounters as a result of membership within the same associations or institutions (Respondent #2: February, 29, 2019).

The existing limited interaction among group borrowers especially in terms of associations such as *Mahiber* and *Iddir* and informal financial institutions like *Equib* might be the result of the low population density of the rural people. Further, this dispersed settlement structure of the rural people has an impact on the extent of people's interaction and network. Group lending is assumed as an effective method when the potential borrowers live in close physical proximity to one another because it facilitates, group formation and it makes it easy to carry out group meetings within a short period of interval. Therefore, to create a strong relationship and trust among group borrowers, the group members should have existed in a very closely tied societal interaction. Meaning, all members of the group must know each other and they have to have a strong social relationship with each other in their everyday life. In this case geographical proximity has an impact on their social interaction. Besides, participating in informal financial institutions such as *Equib* and traditional associations such as *Iddir* and *Mahaber* helps to build a strong relationship among people. When people are in a strong relationship, each group

member would know the activities and the performances of the other members. For that reason, the poor individual may have a chance to join a certain group without any physical collateral since the member of the group knows the work habit and other commitments of that individual. In this context, the social controlling mechanism matters more than the instrumental controlling method.

Moreover, to ensure the survival of the group, members may give valuable suggestions and share information and other materials so that every member can perform well and remain capable of repaying their loan at a time. Producing a strong relationship among the group borrowers helps to create a feeling of losing his/her reputation among the society if a wrongdoer exists in the group. Therefore, such persons would remain cautious about their loan, loan repayment and his/her loan utilization. In this case, trust becomes a very crucial instrument for the group lending programs of microfinance institutions (the so-called social collateral) rather than the asset holding status of the client.

4.3.The “Effectiveness” of Group Lending Method in Embracing the Poorest

As stated earlier, most microfinance institutions use the group lending method since it is believed to be an effective model to encompass the poorest in the microfinance institutions' credit scheme. In group lending method, it is assumed that loans are provided to individuals organized as a group and this group in turn act as a collateral for one another in order to waive the physical collateral requirements and to replace it with community trust and shared accountability to ensure repayment of the loan money. As it discussed above this method of lending is effective for the lender institution in securing the repayment of the loan. However, it has a limitation in embracing the poorest sections of the population into the credit scheme of the institution. For instance, as Kuarit woreda food security and risk management office data indicated, a total of 14,999 households in the Woreda are not able to secure their households' consumption need¹¹. This data indicated that the existence of large number of people still excluded from the institutions credit services (however it requires further investigation in relation to whether all these people wishes the credit services of the institution).

In general, for the sake of systematically assess the effectiveness of the group lending method in including the poorest sections of society within microfinance credit services, the researcher

¹¹ Kuarit Woreda Food security and Risk Management Office, 2011 E.C

grouped factors that influence the effectiveness of the method into two discreet categories. These concepts coined as client factors and institutional factors.

Client factor

Client factors are those factors that are associated with group formation procedure of potential borrowers. As noted above, group formation is based on the potential borrower's interest without external intervention. Since the group borrowers would be responsible for member's dropout, the group members form their group by considering potential risks likely to occur. Questions such as "who will take the risk if client dropout happens? The institution or the group? ... matters most on the inclusions of the poorest within the credit scheme of the institution. Concerning these questions one of the informants from the institution workers maintains the following:

At the group formation stage, we provide awareness to the potential borrowers about the nature of collateral and responsibility of the group. Thus, the clients are well aware that if client dropout happened, the group borrowers, in general, would be responsible for covering the loan of the defaulters. Therefore, borrowers are obliged to save before the loan delivery as compulsory saving. The purpose of this saving is to cover the loan of the defaulters as well as to improve borrowers saving culture (Key informant #2: February 26, 2019).

The above response of the informant indicates that if the default of a single member has happened all borrowers of the group are responsible for the repayment of defaulters loans. Furthermore, if one of the members does not repay the loan, all members are then likely to be denied from getting loans afterward. Therefore, the burden shifts to the group members, since this is an approach in group lending method. Due to fear of this burden, potential borrowers are forced to exclude extremely poor people who do not provide any physical asset as a guaranty during the group formation stage. As a matter of this fact, borrowers framed their group only through embracing those people who have physical collateral. Here, the reasons for poor people's exclusion from borrowing in the group lending method are due to the low level of trust that relatively rich people within the group have upon the poor people. With this regard one of the respondent from the group borrowers and the leader of his group pointed out the following:

If one of the group members is unable to pay his/her loan it puts a risk on the whole group, because we have to cover the missing loan of our group members. We cover the loan since it would undermine the whole members' possibilities to apply for another loan

for the future loan cycle. We could only be eligible for the next loan period only if we exhibit good credit performance in our past loan history. Thus we take utmost care about our group members. The poorest who have not assets could be a risk for all of us, therefore, we do not include those in our group (Respondent # 3: February 29, 2019).

This response entails how the group borrowers are strongly emphasized on the asset status of potential borrowers during they organized the loan group. Since the loans are given to a group who are jointly responsible for the repayment of the loan, members of that group would be unwilling to include the poorest people into their group. This is because they assumed that the inclusions of poor people into their group would result in a high risk of default during the loan repayment period. Likewise, Develtere and Huybrechts (2002, p. 14) indicated that with the Grameen model of microfinance, the group formation procedure does not make things easier for those poor people since members do not want to include the poorest in their group since they considered them as too risky. Moreover, Hulme and Mosley (1996, p.130) also pointed out that the reason behind the exclusion of the poorest and often not accepted in group lending programs by other group members is because they are seen as “a bad credit risk” due to this reason, the loan is moved to other relatively rich people. So, the microfinance institutions themselves often prefer the richer poor as clients, since they are more likely to assure the sustainability of the organizations". Therefore, the poorest are denied from accessing the institution's credit as a result of their low level of asset ownership, since the only asset they have is their labour and the group borrowers also place high value for instrumental guaranty than the social guaranty (trust, network, relationship).

The foregoing discussions indicated that one of the reasons behind the exclusions of the poor from microfinance loans is due to group members' preference for instrumental assets from potential group mates. In other words, the group formation trends of clients by itself has a deterrence effect for the poor people to be part of a borrower group. Hence, it suffices to say that the distribution of the loan in the institution is not in line with its initial idea of the pro-poor methods of lending in its establishment.

Institutional factors

On the side of microfinance institutions, there are no conditions that can force potential borrowers to include poor people during group formation. As it is pointed out above, the group formation is based on the potential borrowers' willingness without any external intervention from the lending institution. Hence, in addition to the process of group formation procedure,

the absence of institutional intervention on the inclusions of the poorest during the group formation procedure can be another reason behind the exclusions of extremely poor people to benefit from the microfinance credit service. This could lead the institution to reach out to only those clients who are not part of the institution's initial objective of the pro-poor lending strategy. In connection to this, the study conducted by Develtere and Huybrechts (2002, p.12) pointed out that about 15 to 30% of Grameen Bank members do not belong to the target group. Mathie, (2001, p. 41) on the other hand, pointed out that “*the pro-poor lending strategies do not adequately reach the poorest of the poor, and that loans meant for this target population often end up in the ‘wrong’ hands.*”

The absence of institutional intervention during group formation might be a deliberate act of the institution by considering the poorest as a "bad credit risk". They might assume it would be a challenge for their institutional sustainability. In relation to this Hulme and Mosley (1996) cited in Hermes and Lensink (2007, p. 463.) indicated that “*the staff members of microfinance institutions may prefer to exclude the core poor since lending to them is seen as extremely risky*”. The other institutional factor for the exclusion of the poorest from the microfinance credit scheme might be the requirement by the institution to save 7-10% of the loan (as discussed above) that the potential borrowers demand before the loan granted. Furthermore, the shift in the institutional orientation from microcredit (lending small loans to the poorest) to microfinance can be mentioned as one factor behind poor people’s low level of participation in the group lending scheme of the institution. In this transition, as Armendáriz and Morduch, (2004, p.15) indicated, *in microcredit, the focus was explicitly on poverty reduction and social change, and the key players were NGOs. In “microfinance” households can benefit from access to financial services more broadly such as credit for microenterprises. This shifts the orientation of the institutions toward “less poor” and the creation of commercially oriented, fully regulated financial entities*”.

By and large, the responsible factors for the exclusion of the poorest from the institutions’ credit service can be plainly stated as, the group formation procedure on the side of the potential borrowers, and the low-level of trust that the people have on the poorest who have not an asset by the strong fear of borrowers dropout and the institutions inability to intervene in the group formation process. The borrowers may refuse to repay their loans due to several factors. Some of the reasons are discussed below.

Reasons for client dropout

As discussed above, one of the reasons behind the exclusions of those “asset less people” from the credit scheme of the institution is due to fear of dropout. In this regard, one of the informant among group borrowers who have experienced client default in his group explained the reason as follows:

We had one woman group member last year. She took the loan saying that she would spend it on animal fattening. She was an active participant in our monthly meetings and other group issues. However, she was unable to complete her total loan at the end of the loan term. She told us that a significant price decrease in agricultural products has occurred and we understood that she didn't sell her products at a price she anticipated at first. She vowed to pay her loan soon but later, we received information from her neighbours about the fact that she leaves her domicile and moved to other regions (he named it “bereha”) (Respondent #4: February 29, 2019).

From the above narrative, one can understand that internal migration (the movement towards "bereha") is one reason for the borrower's dropout. At the same time, it can be seen as a solution for the borrower to skip the duty of paying back the loan. Moreover, drought and animal diseases (especially for those borrowers who took the loan for purchasing agricultural inputs and animal fattening), crop failure, low amount of loan and short term repayment rate, high-interest rate were also mentioned by clients as contributing factors for client default.

On the other hand, persons interviewed in the institution affirmed that client defaults have something to do with the attitudes/ misconceptions that borrowers have about the purpose of microfinance loans. In this regard, an informant who is a worker in the Kuarit branch office of ACSI noted the following:

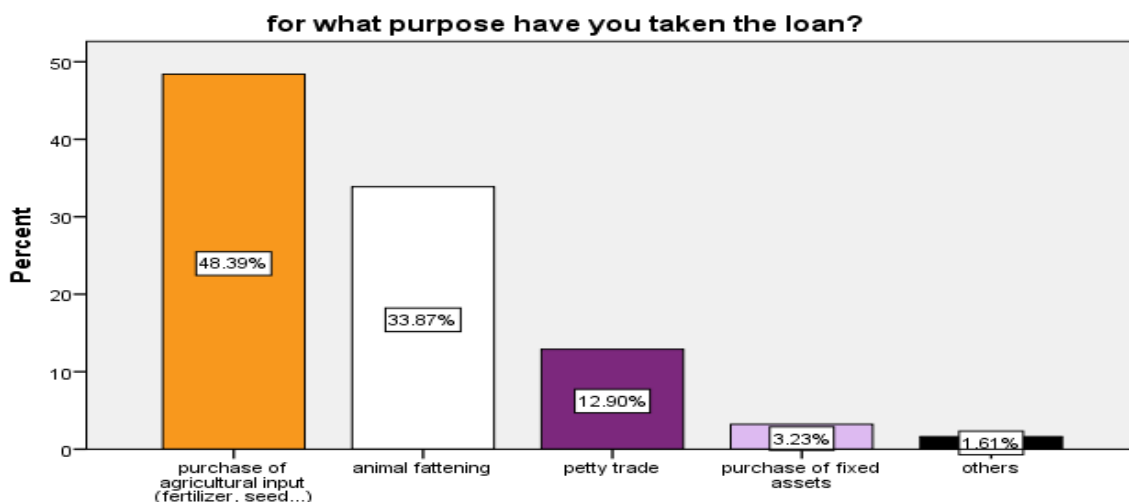
At the earlier time, the default of clients has mostly occurred as a result of a misconception of clients on the institution's loan. At the initial stages of their entry, clients assumed that microfinance loans are free money offered from the government and they conceived microfinance institutions as a channel through which the government distributes money for the poorest. Then clients took the money and refused to repay at the end. We believe that the reasons for such a large number of client defaults are highly related to this misconception. That is why this is one of the focus of awareness creation training by our institution's field workers (Key Informant # 4: February 25, 2019)

The above-stated response of the informant implies that due to borrowers' misconception of the purpose of granting loans to the needy by the institution and failure to use their loan effectively for the intended purpose is one reason behind client default. This could, in turn, might be resulted from limited follow-up and lack of appropriate business skill training by the institution. It can also be noted that providing extensive training about the source of the loan, the purpose of the loan, for what purpose the clients should use the loan, etc. before the distribution of the loan money for the customers are vital for the success of such loans.

4.4.Types of Loan, Loan Amount and Term of Repayment

4.4.1. Loan Purpose

Microfinance institutions in Ethiopia provide a variety of loan services. Hence, ACSI, as one of the largest microfinance institutions in Ethiopia, provides loans for the purchase of agricultural inputs, for animal fattening, for small trade activities especially in the rural areas and other different purposes. Accordingly, the following graph refers to the distribution of sample respondents based on the purpose of the loan or client's business area engagement with the loan.



Graph 4.2. Distributions of sample respondents based on the purpose of loans

In view of that 113 (48.39%) of sample clients have been borrowed to purchase agricultural inputs. This might occur as a result of the short-term loan periods of the institution which is a maximum of one year. Clients tend to participate only in short term activities rather than in the long term production activities, which will have high earnings in the long run. This could have a negative impact on the selection of business investment areas by the clients.

The second largest loan application, which is 79 (33.87%) has been taken for animal fattening. This area of investment requires a relatively long term loan repayment period. It also demands a relatively large amount of capital. In this regard, the data indicated that the loan repayment period is one year and the amount of loan based on the present loan status of borrowers is 13000 ETB. This indicated that the loan repayment time, as well as the loan amount, is not sufficient to engage in this area of business. Due to this reason, it is difficult for those borrowers who engage in the area of animal fattening. Hence, in this area of investment, there may be a condition where borrowers could divert the loan for other purposes. That means, right after they received the loan, they would not use it in line with their loan application statement. In this regard, one can understand how the borrowers systematically divert the loan for other purpose from the following response of my interviewee among the group borrowers:

I applied for animal fattening and I got the loan amount of 9000 ETB. Immediately I bought an ox with the loan. Since I started to do my farming on this ox, I have gained a large amount of agricultural products. Finally, when the loan repayment time has reached, I was able to repay my loan by selling this ox (Respondent # 4: March 4, 2019).

The above response of the client entail us that there is a trend for borrowers to receive the loan for animal fattening but, diverted the purpose and used it for farming. At the time of loan repayment, the borrower covers the loan by selling his ox. In this case, the borrowers considered crops produced using the ox's' labour as their profit from the institution's credit. This seems to happen because of the inadequacy of the loan amount since animal fattening requires large amount of capital.

Furthermore, from the above data, one could observe that only two types of loan (purchasing for agricultural input and loan for animal fattening) cover 82 % of the total loan that has been applied by the clients. These also imply that the institution's loan service has little room for product diversification among borrowers since the duration and the amount of loan is small. With this regard Haftu, et al (2009) pointed out that the existence of a lack of product diversification on microfinance services (their financial product is almost the same and replicate each other) consequently, it can be the causes for high client dropout. In this sense, Develtere and Huybrechts (2002) on their study of microfinance also indicated that if there are more people specialize in the same business activities the return will be low.

On the other hand, 30 (12.9%) of respondents also reported that they spent the loan for petty trade or small-scale business activities such as selling fruits and vegetables, selling injera and

bread, selling traditional alcoholic drinks (*tela, areki and teji*)¹², and the rest 8 (3.23%), and 4 (1.61%) of clients used the loan for the purchase of fixed assets such as home equipment and different tools for house construction, and “others” respectively.

Moreover, as could be noted from the above data based on the client's purpose of the loan, there are no borrowers who applied for the consumption purpose. In this regard, the institution does not provide loans for consumption smoothing. Concerning the purpose of the loan the branch office coordinator of the study area pointed out the following:

Our institution provides all types of loans for income-generating activities in order to assist those active poor people who lack the source of capital to engage in a certain business. Borrowers most often used the loan for the purchase of agricultural inputs, purchase or rent of small plots of land for cultivation, for commercial activities and other income generation activities. Therefore, the loan of the institution is used for self-employment, rather than for the consumption purpose (Key Informant #1: February 25, 2019).

4.4.2. Loan Amount

Regarding the loan size, the institution has an assumption that the best way to introduce the very poor to the business world is to start with small but progressive loan size between loan cycles. This is because the new poor clients would have no business experience and it is expected that these clients would gain experience step by step through consequent loan cycles. Furthermore, the institution has a firm belief that this loan arrangement enables borrowers to repay the loan in a relatively shorter period since the smaller the loan size the shorter would be the repayment period.

Concerning the loan amount and loan term, a question was posed during the interview with the institutions' coordinator, and he pointed out the following:

In principle, the maximum loan size allowed to group borrowers is 50,000 ETB and a minimum loan size based on the present loan status of our clients is not less than 1000 ETB with a loan term of one year. The total amount of loan must be repaid monthly throughout the loan period. The loan amount will improve step by step in line with the

¹² *Tela, Areki and Teji* are the most widely used traditional alcohols used by the area community. These alcohols are prepared from wheat, barley, maize, buckthorn, and honey (for preparing *Teji*)

client's financial capital, financial management capacity improvement, and repayment performance (Key Informant # 1: February 25, 2019).

The above response of the informant indicates that the loan amount provided to clients would improve gradually in line with the client's performance in loan repayment, and their financial capital. The data which were collected through questionnaire from the sample respondents based on their existing loan status of the client's also indicated that the maximum loan size was 13,000 ETB. The following table, therefore, represents the amount of loan that the borrowers had received from the institution.

Table 4.4. Distribution of sample respondents based on the amount of loan they have received.

<i>The amount of loan (ETB)</i>	<i>Frequency</i>	<i>Percent</i>
<i>1000-3000</i>	<i>19</i>	<i>8.1</i>
<i>3001-6000</i>	<i>91</i>	<i>38.9</i>
<i>6001-9000</i>	<i>85</i>	<i>36.65</i>
<i>9001-12000</i>	<i>28</i>	<i>11.95</i>
<i>12001-13000</i>	<i>11</i>	<i>4.7</i>
<i>Total</i>	<i>234</i>	<i>100</i>

Source: (Survey data, 2019)

The above table shows that the majority of sample clients have received 3001-9000 ETB amount of loan, it covers more than 74% of the total sample clients. While sample clients who received 12001-13000 ETB cover only 4.7% of the total sample respondents. Moreover, the data were collected through an open-ended questionnaire item and it was grouped in line with the above table during data analysis. Based on the current loan status of the sample clients 13000 ETB was the largest amount of loan delivered to the clients. In this case, the amount of loan and sufficiency of the loan money to achieve the planned business would be questionable.

4.4.3. Sufficiency of the Loan

The above table (4.4) refers to the amount of loan provided by the institution. The amount of loans provided by microfinance institutions for the borrowers can have an impact on their future benefit from the credit service of the institution. Here the other concern that follows from the above data is the sufficiency of the loan amount to engage in certain business activity. To this

end, the clients were asked to respond to the sufficiency of the loan amount that they had received from the institution.

Is the loan amount sufficient for the intended purpose?

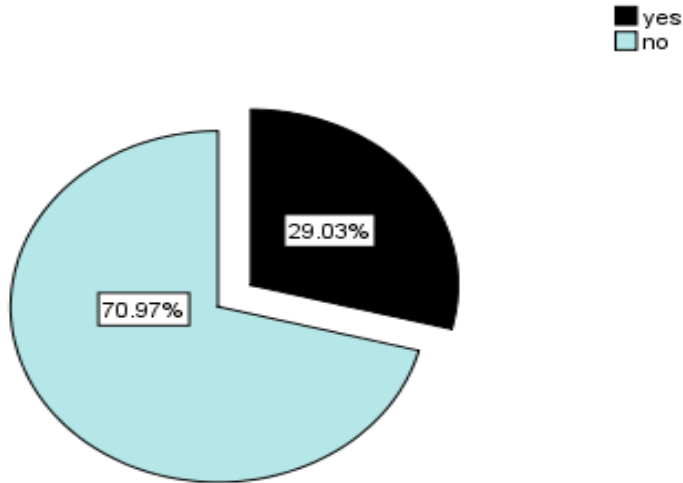


Chart 4.3. Sufficiency of the loan

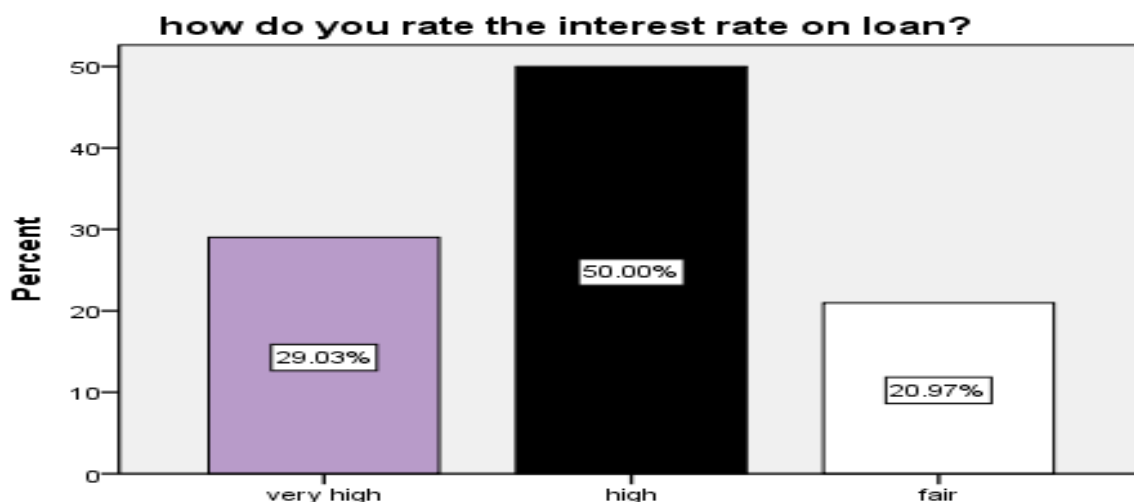
The above data were compiled in line with sample clients' responses on the amount of loan and its sufficiency to run the planned business activities. Accordingly, from the total sample respondents, 166 (70.97%) of them replied that the loan money was not adequate for their business operation, whereas 68 (29.03%) of sample clients reported that the loan they have received from the institution was sufficient to run their business. Therefore, the majority of sample clients replied to the inadequacy of the loan amount to engage in a lucrative business. Especially those clients who took the loan for animal fattening purposes revealed that they even had used their own pocket money. With this regard, data from one of the respondents through in-depth interview provide this true:

I took a loan amount of 8000 ETB from the institution through a group lending method for animal fattening, but I bought one ox worth 11000 ETB. I could say that I used the loan entirely for the intended purpose. However, the loan amount that I got from the institution was not sufficient enough to achieve my goal. I used an additional 3000 ETB from my pocket to buy the ox (Respondent # 5: March 4, 2019).

4.4.4. Amount of the Interest Rate

Microfinance institutions are established to help the poor to move out of poverty through the provision of small loans with a moderate level of interest rate (Bangoura, 2012). With this rationality, especially after the success of the Grameen model of microfinance institutions in Bangladesh leads to many developing as well as developed countries to adopt microfinance institutions as a strategy to fight poverty. Currently, ACSI as one of the Ethiopian microfinance institutions it is providing different kinds of loans. Here the concern is on those types of loans that are provided through the group lending method. The lender institution provides interest rates on loans to be able to recover costs and make a profit. Here the concern is how much the interest rate is fair for the borrowers. With the group lending method, the loan has given for the borrowers with an interest rate of 19%¹³.

In order to identify the fairness of the interest rate, the sample borrowers (group borrowers) were requested to rate the existing interest rate on the group loans of the institution. Accordingly, the borrower's response indicated that 68 (29.03%) of sample respondents replied that the interest rate of the institution's loan is "very high", 117(50%) of the sample respondents rated the institutions interest rate as "High", and 49(20.97%) of respondents rated as "Fair". On the other hand, none of the sample borrowers rated the interest rate of the institution's loan as "Low" and "Very Low". The following graph shows the distribution of sample respondents in line with their response to the amount of interest rate on group loans.



Graph 4.3. The extent of the interest rate of the loans

¹³ An interview with the coordinator of the ACSI Kuarit branch indicated the interest rate of the group loan is 19%.

The interest rate of loans provided by microfinance institutions is not fixed and unrestricted under the microfinance business proclamation of Ethiopia. The interest rates vary across organizations. In this regard, Sebstad (2003) pointed out that, an earlier ceiling on the interest rate was raised in 1998 so interest rates are no longer restricted under the law. Proclamation (40/1996) of Ethiopia requires microfinance institutions to provide credit through the group-based lending method and it allows microfinance institutions to mobilize savings but restricts the size of loans and the repayment term to no more than one year. Micro-Financing Business Proclamation No. 626/2009 also indicated the National Bank of Ethiopia may set the limits on the maximum credit to be extended by a micro-financing institution to any individual or group loans. However, the proclamation does not restrict the amount of interest rate on loans. For that reason, there is no uniformity of loan interest rates across Ethiopian microfinance institutions.

Moreover, in the case of this study, the interest rate for group loans is found to be 19% and the majority of borrowers admitted the existence of high-interest rates on the group loans. In this case, it is difficult to agree on the assumption that microfinance institutions as an effective antipoverty tool since microfinance institutions charge such high-interest rates on group loans. Concerning the high-interest rate, Bateman (2011) pointed out that, though microfinance institutions charge lower interest rates than local loan sharks, they are imposing high-interest rates on poor clients. The author indicated that at the initial establishment, *MFI assumed it was needed to cover the high operational costs of providing tiny loans to the poor, however that interest rates would fall through competition. Yet interest rates have not fallen as much as foretold. The personal rewards for key managers increased, while the interest rates for its poor women clients have remained very high (Bateman, 2011, p.3).*

Here, when we say the interest rate is high, it is not only by observing the percentage of the interest rate, however, it is by considering the amount of loan provided by the institution (since it is small) and type of business the borrowers engaged (small scale business). Therefore, the institution charged a high-interest rate because the amount of interest rate was not easy to come by especially from small scale businesses that borrowers engaged in through small amounts of capital. In this condition, microcredit programs that target the poorest may intensify the very poverty situations of the poorest they were designed to address. This is due to the lender institutions' attempt to cover the costs of lending to the poorest by charging a high-interest rate.

Scholars indicated that high-interest rates from the small amount of loans impose huge burdens on the poor, vulnerable population, and any default is likely to push borrowers deeper into

poverty. For example, the study conducted in Uganda by Rippey (2007); cited in Berhanu & Schneider (2014, p.7), indicated that, *More than two thousand women who had borrowed heavily in the last six months have either had to sell off their pieces of land or domestic animals to repay their loans and where some have failed, they've had to flee to nearby islands or face horrifying prison sentences.* Islam et al. (2012), also indicated that there have been existing borrowers of microfinance who face the challenge of the inability to pay their loan on a particular time for having higher interest charges. On the same issue, in the Ethiopian context, the study conducted by Wegayehu and Kalaba (2017, p.9) pointed out that *microfinance institutions characterized by paying the low-interest rate for saving(3%) and high lending interest rate(18).* However, at present, the interest rate on loans is found to be greater than ever before (19%).

4.4.5. Clients Trend of Loan Use

Though most respondents of the study confirmed the positive contributions of microfinance institutions credit service on their living conditions, its contribution varied from one client to the other. Most of the time there is the trend of using the loan money to satisfy their immediate needs through diverting the purpose of credit. In this regard, the clients were requested to respond to "did you use the loan entirely for the intended purpose per the loan application?" (See the following chart 4.4)

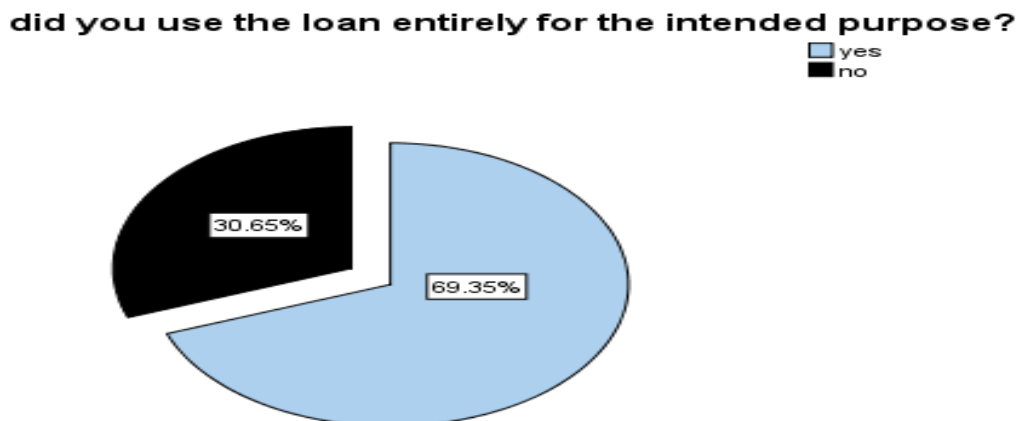


Chart 4.4. Clients trend of loan use

As the above pie-chart depicts 72(30.65%) of sample clients replied as they had the experience of diverting the loan for other purposes. Some borrowers interviewed explained that they have used part of their loan to meet their immediate needs, for instance, to cover medical expenses,

and used the loan to cover another loan from other sources. This practice of borrowers would limit the impacts of the credit on their long term improvement of living standards. Further, it may also put borrowers into a cycle of indebtedness. Moreover, it shows that clients require loans not only to start or enlarge the existing productive business but also to smooth consumption and meet other immediate needs. In this regard, the study conducted by Siyoum et al. (2012, p.15) indicated that “although credit is meant to help poor households to develop capacities to invest in long-term livelihood improvement to ensure household food security, in reality, credit has failed to do this except by providing buffers in times of shortage”. On the other hand, the rest majority of the sample respondents 162 (69.35%) replied that they used the loan entirely for the intended purpose in line with their loan application. Yet, these clients reported the insufficiency of the loan to run their business.

During the time of data collection, different clients had different starting dates for receiving the loan from the institution and therefore, they were at different stages in the loan cycle and repayment of the loan. The sample clients were requested to respond to a question regarding the number of loans they take from the institution. Accordingly, 91(39%) of sample clients took the loan more than seven times while 68(29%) of sample respondents reported that they had received the loan for 4-6 times. The remaining 75(32%) of sample clients had received the loan for 1-3 times. The data implies that the majority of sample borrowers had stayed at the institution's credit scheme for a longer period. Regarding this, the institution has an assessment (practice measurement) of the overall impact of the credit on the living conditions of the clients based on the borrowers' time duration in the institution. The institution practice measurement prescribed that “The available best practice suggests that poor micro-finance clients will be able to escape poverty (food + non-food) after five years of joining an MFI, and will be in a position where they no longer need credit from the MFIs after eight years¹⁴”

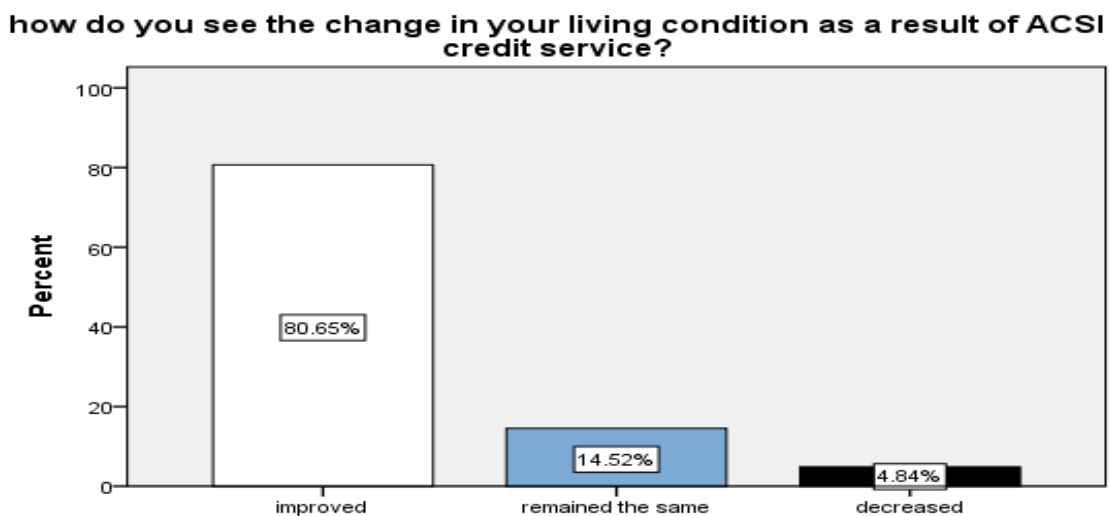
By considering the institutions' practice measurement statement and the client's time duration within the institutions' credit scheme, the change in the living conditions of clients wasn't that much significant beyond the routine tendencies of paying previous loans and taking another loan. To be eligible for the next loan term, borrowers must pay the previous cycle of loan debt completely. Thus, as the above informant disclosed, some borrowers cover their loans by selling their previous asset rather than from the profit incurred after engaging in business through the loan money. Therefore, as it stated by the practice measurement of the institution,

¹⁴ Amhara Credit and Saving Institution (2004). Institutional profile, current status, and future strategies.

clients staying in the credit scheme of the institution for a long time does not necessarily mean that they have benefited from the loan. Rather it may have negative consequences on the clients living condition as well. Concerning this Develtere and Huybrechts (2002) on their research on microcredit program confirms this finding. They contended that the length of link with the microfinance institutions did not have a significant impact on the clients living condition. On the other hand, a positive impact was found with increases in the amount of loans, but not with the number of loans or the length of membership within microfinance institutions.

4.5. Impact of the Loan on Clients Living Condition

The prime emphasis of microfinance institutions is to alleviate poverty through providing and expanding financial opportunities for low-income people and assisting them to improve their living conditions. Hence the effectiveness of institutions is evaluated based on the extent to which how much do they successfully achieve this objective. Accordingly, the clients of ACSI, Kuarit branch were requested to rate the extent to which the credit service of the institution offered through the group lending method has assisted them in improving their living conditions.



Graph 4.4. Living condition improvement as a result of the institutions' credit service.

The data that were collected through questionnaires disclosed that among the sample clients who were involved in this study majority of them, 189 (80.65%) rated the credit service of the institution as having an improvement in their living conditions. Whereas 34(14.52%) of sample respondents replied that their living condition has remained the same. Meaning the institution's credit service did not bring about any change in their living conditions. The remaining

11(4.84%) of respondents reported that the institution's credit service has negatively impacted their living conditions. Concerning this, the researcher raised a question for those respondents who experience a negative impact on their living condition about the reasons why it happened and also why they are still existing in the credit scheme of the institution, one of the respondents pointed out the following reason:

I took the loan for animal fattening and I bought six sheep with the loan. However, among these, four of them died as a result of animal disease. I paid my loan by selling crops, the remaining sheep and by borrowing some money from others. Now I got the loan for purchasing agricultural input and I am striving to get better from the previous loss and I hope I will recover soon (Respondent # 6: February 29, 2019).

The above response implies clients are still existent in the institutions' credit scheme with a strong hope to recover from the past loss. It implies that the client has trust in the relevance of the institution's loan. On the other hand, it has also an implication that the borrower might stay in the credit scheme of the institution until he/she pays back the loan completely. Because the inability to repay the loan would put the borrower in danger of losing his property since it might be confiscated by the group members.

The data which were collected through the questionnaire indicated that the majority of sample clients said their living condition was improved as a result of the institutions' loan. This implies that, of course, despite clients' dissatisfaction in the maximum amount of loan and the interest rate of the loan, still the money could make differences in the lives of borrowers once they got engaged in the credit scheme of the institution. That is why most of the sampled clients reported the positive contributions of the institution's loan.

Those respondents who said "the institution loan brought an improvement on their living condition" were again requested to explain the indicators of their improvement on the open-ended questionnaire items. Accordingly, they prescribed the fact that they have become able to afford basic needs, had access to education for their children, improving their family's food variety, improving their health condition (access to medical service). As studies in this area, for instance, Zeller (2001) indicated, microfinance institution's loans allow their clients to plan about the future, as a result, they send their children to school. Likewise, this study also found out that the institution's loan had a contribution to access to education through improving the educational utilities of the borrower's children. Furthermore, Murray and Boros (2002) indicated that increasing the households' income level helps to improve the nutrition of the

family, consequently, it improves the probability that poor children from that family will go to school.

Moreover, the role of the microfinance institution in improving the living conditions of their clients can be assessed by examining the client's level of income and their asset holdings. Most of the respondents indicated their living condition improvement based on their asset ownership/accumulation. With this regard, the institution's loan had more impact on the asset conditions of clients of this study. The sample clients reported that their asset holding has shown improvement after taking the loan. They were able to build new houses, renewing/improving their built-in house and enabled them to purchase livestock, etc... in which they were not able to do these without the institutions' loan. Furthermore, focus group discussions were made along with some borrowers (two groups of participants). Among these clients who were beneficiaries of agricultural loans, especially those who applied for purchasing agricultural input pointed out that ACSI group loan services were important for their life because it had helped them to improve their agricultural production.

Most of the sample clients indicated their living improvement in terms of the assets they had acquired because ownership of an asset is regarded as the guaranty of their future investment. Due to this reason, they consider creating assets as one of the most important indicators of their improvement more than income saving. For many clients, the house, livestock and the land they owned are the most valuable asset thereby increases a household's material wealth, and contributes directly to the material wellbeing of clients and servers to create or enhance their business.

Again the question is, do these valuable assets remain with the borrowers after the repayment of their loan? Concerning this question, the study found that there were practices of selling these valuable assets by some clients during the loan repayment time. Most of the time timely loan repayment performance of clients might be an indicator of borrowers living condition improvement for microfinance institutions. Timely loan repayment capability of clients can be taken as one of the indicators of a client's life improvement, yet it is not the best trustworthy indicator. Because here beyond that, it is important to identify from where the clients repay/cover their loan and consider the questions such as do the borrowers pay back the loan from their business profit? Through selling assets? or through borrowing from other loan sources? In this regard, if the borrowers used the loan for income-generating purposes, it is easy to repay the loan and the loan interest amount from their business profit. Otherwise, the

loan adds another burden and forces the clients to be imprisoned into a vicious cycle of indebtedness. Accordingly, borrowers have used various sources of income to repay their loans such as loans from friends and/or relatives, selling their assets and paying from their business profit.

Furthermore, most of the time clients pay back their loans through a combination of several income sources. About this, the data that were generated through the questionnaire indicated that income from the business profit was the main source to repay the loan for 159 (68 %) of sample clients. The other 63 (27%) of sample clients replied that they have been forced to sell their assets (which were bought by the loan taken from the institution) to be able to repay their loan. With this regard one of the respondent from borrowers maintained the following:

Before I got the loan I had only one ox and I used the ox with other persons' ox cooperatively with a shift arrangement (it's called "tenad"¹⁵) to undertake agricultural activities. When I got the information from the kebele development committees about the ACSI's loan I decided to take up the loan. When I got the loan, I immediately bought an ox with the loan and made my oxen a couple. This helped me to use the oxen the whole day independently because I didn't require the cooperation of other's ox ("tenad") since I already got two. However, when the loan term ended I was forced to sell one of the oxen since I did not have the money on my hand to cover the loan (Respondent # 7: March 2019).

The above narrative of the respondent entail us that the only saved money of clients at the institution is the compulsory saving money which was saved during the commencement of a borrowing group. As the researcher substantiated through interview with the coordinator of the branch office, borrowers are not allowed to take another loan unless they completed their previous loan. Due to this reason, selling valuable assets has become mandatory to cover loans taken by borrowers. About this Siyoum et al. (2012) disclosed that in order to stay within the microfinance credit scheme clients are forced to sell their productive assets or take another loan with high-interest rates to pay back their existing loans.

Moreover, there were 7 (3%) of sample clients who successfully paid back their loans through selling their previously existed valuable assets such as sheep, goats and other agricultural

¹⁵ "Tenad" is the practice of using one's ox in collaboration with other's ox for farming when a farming household have only one ox. It is a widely used practice of farming in the area community by those farmers who have not more than one ox.

products. Because they knew that they would not get included in the next loan cycle. The rest 5 (2%) of sample clients reported that they had other sources to reimburse the loan of the institution.

4.6.Challenges and Opportunities of Group Lending Method

The group lending method has both positive and negative effects on borrower's living condition. Hereunder the researcher discussed the reactions of clients concerning the challenges and opportunities of borrowing in a group.

Challenges of borrowing in group

One advantage behind using different data collection methods in the same research is the researcher can collect different types of data from the same respondents by combining different research methods. Likewise, most respondents in this study reported the advantages of borrowing in a group than individual loans during focus group discussions. Still some clients also reported their preference of individual loan over borrowing in a group during the face to face interview time.

Some of the group borrowers interviewed noted that they are dissatisfied with the group lending method of the institution and, they would rather prefer individual loans. One of my interviewee from the borrowers pointed out his dissatisfaction with group lending method as follows:

In the group lending method loaning on the subsequent loan cycle is determined by the previous credit history of the group. Hence if one of the group members drops out, the group, in general, would not be eligible to take another loan from the institution. In this case, the group would be forced to pay someone else's loan who has refused to pay his/her loan (Respondent # 8: February 29, 2019).

The above response of the respondent tells us that borrower's dissatisfaction with the group lending method is due to the strong fear of paying the loan of other group members. Therefore, borrowers have a preference on individual loans. The respondent again added the following about his preference and opportunities of individual loan:

In terms of loan management, it is easier to manage individual loans than group loans. Since decisions about loan utilization are very easy, no one oversees you regularly to check your loan usage. The individual loan also helps to avoid unnecessary disputes among group borrowers over delays in loan repayment meetings and also you can escape from paying other group members loan during clients' dropout. In individual loans, one

would work hard to repay his/her loan since he/she knows that nobody is going to help them to repay in case they dropped out (Respondent #8: February 29, 2019).

As the above informant pointed out the dissatisfaction with the group lending method is due to such factors as decisions on loan utilization. In this regard, in the group lending method, there is the practice of supervision by the institution's field works to check whether the borrowers used the loan for the intended purpose or not. Therefore, this might not give freedom of decision for the borrowers.

As can be noted from the above-indicated response of the informant, the unnecessary dispute with the group members and the incidence of client drop out were the other causes of client dissatisfaction with the group lending method. This kind of dissatisfaction of clients on the group lending method might lead to clients' decision to exit from the institution's credit scheme. Concerning this, the study conducted by Dackauskaite (2009), on client exit in microfinance institutions, pointed out that due to the client's dissatisfaction with the joint liability contract, they have a preference for individual loans. For that reason, they have opted to exit altogether rather than carry on taking group loans.

Furthermore, some of the clients interviewed have also associated their dissatisfaction with the group lending method with the high-interest rate of group loans (the interest rate for group loans of the institution is 19%) and the small amount of loan amount which is provided in the group lending method. Likewise, the quantitative data also indicated that 79% of the sample borrowers replied about the existence of a high-interest rate on group loans. Moreover, these have implications that most of the respondents join groups to get microfinance credit service because they have no other available means of obtaining individual loans since they have no monthly income to pay back their loan in time just like the public servants do. Furthermore, clients reported their desire for the interest rate to be smaller, the loan amount in the form of group lending method to be larger and the loan repayment term to be longer.

Opportunities for borrowing in group

According to Cassar et al. (2007), when people borrow in groups with high levels of relational capital, strong social ties generate trust that other group members will contribute their part toward repaying group loans, thus making it worthwhile for each individual to repay. Moreover, as the idea of joint liability model stated in the literature review section disclosed, group members are jointly liable for repayment of the loan of each group member, they have

an incentive to pressure fellow members who fail to maximize the probability that their share of the group loan will be repaid.

Some individuals' interviewed stated that they prefer group lending over the individual loan. They justified that in case someone is unable to pay his/her loan in a group lending method he/she would be able to get financial support from other group members and they share the burden with group members similarly. In this regard, during a focus group discussion with the clients one of the discussants pointed out the following about their group:

Our group was formed six years ago with seven members. Now as you see right here we have six members. Among these, I have a blood relation with some of them. We helped each other when one of our group members could not pay his/her loan at a time (FGD: February 29, 2019).

The above narrative indicated that when the group is formed with those people who have an intimate relationship in terms of long-time duration they have stayed as a group and in terms of kinship (three of the group members have kinship relation), there could be a high level of mutual support among them. It enables the group to use the advantages of local information, peer support, and put pressure among the group borrowers during the loan repayment. As the foregoing response of the client showed, the existing mutual support among group members and their positive feeling on the group lending method is the result of durable interaction (since the group formed six years ago) and their kinship relationships among the group members. So, borrowers consider their kinship and long-term relationships valuable, therefore, they may not want to break existing trust. In this regard Cassar et al. (2007, p.2) pointed out that "the stronger the ties between group members, the greater the potential exists for social sanctions, and thus the more likely these sanctions are to lie off the equilibrium path, implying higher group loan repayment rates".

Besides, most of the discussants during focus group discussions reported that group loan helps them to get some advice, sharing different relevant ideas, experiences, and challenges with group borrowers during their usual meetings and other interactions. In an interview with an informant from the ACSI Kuarit branch coordinator, he revealed that the institution employed a group lending method to benefit the low-income people from the credit service of the institution. Likewise, the group lending method is also an effective method for the institution to collect loans on scheduled time. Before loan delivery, potential clients are requested to save about a minimum of 7% (for monthly installment loans and 10% for end term loans) of the total

amount of loan that potential borrowers seek to take. This has an advantage for the lender institution by improving the loan repayment rate. My interviewee from the branch office upholds this:

Group savings would act as a guarantee for the institution in case a group member refused to pay his/her loan. If client dropout happens the institution covered their loan from initial group savings and the group also allowed to confiscate the assets of the defaulters in a special legal procedure. If all members of the group borrowers refused to pay their loan, the institution would go for the client's physical asset such as land, house, and livestock of the defaulters and inherit their asset to recover the loan (Key Informant # 4: February 25, 2019).

4.7. Microfinance Versus Other Informal Sources of Loan: Determinants of the client's preference

The informal financial sectors and associations are important suppliers of funds in rural financing and that they fill the gap between the credit requirements of the rural population and the supply of credits provided by formal financial institutions. Scholars agreed upon the idea that, since these institutions are built based on strong solidarity and friendship of its members, the problem with loan repayment is very small. The monetary relations in the study area not still sufficiently developed due to the absence of formal financial institutions near to the area. Therefore, culturally appropriate financial institutions and traditional associations such as *Equb*, *Iddir*, and *Mahiber* play an indispensable role in providing financial services despite their cultural significance. Moreover, for those people who might not qualify for loans from formal financial institutions, the informal financial source is usually considered as an alternative. But this may not always be the case, at the same time those who do qualify for the loan of formal financial institutions used the informal financial institutions as an additional source of benefit. Concerning this issue, Dejene (1993) pointed out that those qualified for formal institutions loan still use *Equb* and *Iddir* due to the additional benefits they get from these culturally appropriate financial institutions. Social solidarity and friendship are among such benefits. Moreover, the informal sector appears to have better access to information about the creditworthiness of a participant than the formal sector.

Furthermore, some respondents of this study had the experience of using credit services from informal financial sources such as *Mahaber* and individual money lenders. During an interview

with clients, it was understood that they preferred the loan of ACSI rather than loans from informal financial sources because in the latter case the amount of loan is too small.

Concerning this, one of my respondents from borrowers had to say the following during an in-depth interview:

I had an experience of borrowing a loan from “mahiber”. I took a loan of 300 ETB with a monthly interest of 3 birrs. The financial capital of the “mahiber” was very small since its sources were from the member’s (“Mahibertegna”) monthly contribution of 2 birrs per individual. As a result, it was very difficult to get the loan easily. It is because most of the members of the “Mahiber” want to borrow the money. However, in the case of ACSI you can get a relatively large amount of loan so easily (Respondent #9: February 28, 2019).

The above response tells us that, despite the limited capital accumulation of informal associations such as *Mahiber*, it has the financial value by providing loan service for the members beyond its social value. However, the limited accessibility of loans from these traditional associations due to their limited capital is one challenge to get a sufficient amount of loans. This limited amount of capital deposit of the association deter the community to access the loan as they wish, hence, they decided to find another source of credit. Therefore, one of the determinants behind the client's preference for ACSI loan than a loan from other informal financial sources is the limited access of loans in the latter case.

The other source of informal loans for the borrowers is individual money lenders. The customers of these lenders are those farmers who are temporarily holding land under traditional tenure system or through rent payment without any title to land. These farmers rented agricultural land to produce a large amount of market-oriented products. Therefore, the major constraint facing these farmers is the availability of credit for the purchase of agricultural inputs. Since microfinance institutions require physical collateral such as a land certificate for the granting of credit, these people highly rely on loans from money lenders. About this, one of the borrowers of ACSI loan and who had an experience of borrowing from money lenders explained the following during face to face interview:

I had the experience of borrowing from private money lenders (Arata abedari) more than two times. The loan amount I got from the moneylender was much less than the loan amount now I borrowed from ACSI. The interest rate of private money lenders loan was high but it is not greatly more than the interest rate I am currently paying for ACSI.

Borrowing from private money lenders sometimes have an advantage of repaying the loan in terms of labor (by serving the lender through manual work), or in kind. However, at this time, the practice of borrowing from private money lenders is rare since it is prohibited by the government (Respondent # 10: February 28, 2019).

Microfinance institutions are assumed to charge lower interest rates than “local loan sharks”. These loan sharks are those individual money lenders and who are considered as exploitative of borrowers through imposing a high interest rate on the loan. However, the above explanations of the informant show a little deviation from this idea and it has implications on the positive contributions of private money lenders since the borrowers can cover their loan by using their manual labor. Moreover, the above-stated responses have implications on the following two things.

Firstly, though the amount of loan is low and interest rate is high in this kind of informal loan arrangement, the borrowers can repay their loan by substituting it within their available resource i.e. with their labor. Due to this reason, loan repayment problems are very rare in informal credit systems.

Secondly, though the informal loan arrangement is limited to only small circles of close neighbors and family members nowadays, it still has a value for the borrowers. However, the above-indicated idea of the informant implies that the government practice of eliminating private money lenders is not only because of their irrelevance, rather it is due to the governments' fear that they (money lenders) might be a challenge if they prevail over microfinance institutions and banks.

Furthermore, it indicates the importance of integrating informal financial sources which have a financial value beyond their social significance like *mahiber* with the formal sector. Integrating the informal financial sector to the formal sector helps to benefit from the strong social and economic intimacy that exists in the former case. Among the advantages of informal financial sectors, Taye (2018, p.124) indicated that "economically, through the mechanism of forced saving, it is believed to promote the entrepreneurial attitude of saving and hardworking among members, it has an interest free deposit and loan service, avail the opportunity of access to investment capital, etc. Concerning social function, via its vital component of the festive ritual, the *Equib* gathering is bound to strengthen and solidify the spirit of sharing and companionship, mutual concern and responsibility, and its virtue among its members which are

effectively prerequisites for undertaking a healthy and predictable business transaction". Therefore, the need to combine the experiences and financial operations of traditional financial institutions/associations such as *Equib* and *Iddir, mehaber* were recognized by different agents and the need to link the informal sector to the formal sector to have an effective and integrative financial productive activities was also suggested.

To sum up, the introduction and the expansions of formal credit institutions undermine traditional lending practices. On one side, the existing possibilities of taking relatively larger loans with a relatively smaller interest rates from microfinance institutions, on the other side, due to poverty there exist few private lenders who are capable to lend, since they do not have enough money accumulation to lend for others. Limited informal source of the loan (low accessibility of loans from informal financial institutions/associations such as *Equib, Iddir, and Mahiber*) coupled with the governments' practice of eliminating the private money lenders are the determinants of the borrowers/clients preference of microfinance institutions loan.

4.8.The Training Programs by the Institution

Training is necessary for the improvement of personal skills of beneficiaries of microfinance institutions' credit service especially for those who are at the stage of starting their own business. It helps to instill the mentalities, skills, attitudes, and confidence of new client's to start up with a new business idea (Hadia and Kamaluddinb, 2015). In this regard, the above data of this study at the educational status of respondents indicated, the majority of borrowers were illiterate or found to have a low educational level. Hence, microfinance institutions require to offer available training to the borrowers for them to acquire the necessary skills to start with the small business, to generate income and to be able to repay their loans successfully. Concerning the training programs that are provided by the institution, one of the field workers for the training program of the ACSI Kuarit branch pointed out the following:

Once the group is formed, the institution provides training to the members on group liability, institutional rules and regulations and the like. Besides, credit and saving management are the other themes of the institutions' training program. The training program is usually provided for 3 to 5 days (for 3 hours per day). During this process, the business plan for the client's future area of business engagement would be designed and provided by experts of our institution. After 15 to 30 days of the loan delivery, the field workers of the institution would conduct supervision in order to check whether the borrowers are using their loan for the intended purpose or not, the existing client's loan

utilization, and the extent of borrowers participation within the group (Key Informant #2: February 25, 2019).

As my informant made it clear in the above response, the institution provides training programs for three to five days. In relation to this, since the majority of sample clients of this study were illiterate, it is safe to say that they require extensive training programs. The training programs (3-5 days) is not sufficient enough to inculcate the awareness of financial management and other business skill issues. When we see the experience of other countries, for instance, a study conducted by Akpan (2005) in the case of South African microfinance institutions indicated that after a newly formed group is well assessed and approved they put through three weeks of training on basic financial management. Whereas in the case of this study, the training program of the institution appears to be too short, therefore, it is difficult to create basic financial knowledge for clients within this specified time. Since large populations in Ethiopia have little interaction with formal financial institutions (Wolday, 2012), financial education (financial concepts, skills, and attitudes) to inculcate the credit and saving culture on borrowers is required in the form of a series of capacity-building activities with a special focus on increasing the knowledge of those financially excluded sections of the society.

Moreover, the content of training that is provided by the institution focused on the importance of credit, channels of credit distribution, loan repayment, the importance of group loan, group borrowers' responsibility when they borrow in a group, area of investment and other related things. Thus, the institution's training orientations have been given little emphasis on saving. Hence, this could have an impact on the client's long-term improvement in their living conditions. Poor people should be inspired to save something out of their little earning each day. Gradually, their savings would help them to invest in small businesses in their community. Tavanti (2010, p.7) also pointed out that, *the most important element of microfinance isn't preaching only about the contributions of lending credits but providing various saving opportunities*. In this regard, the only saving for most of the group borrowers in the institution is a compulsory (forced) saving. The required compulsory savings vary across microfinance institutions. The minimum compulsory saving in the case of ACSI is 7% for monthly installment savings and 10% for end term loans. Concerning the interest rate on the compulsory saving, ACSI pays 3 percent.¹⁶ Although compulsory savings have the advantages of inculcating saving culture, it is intended by the institution primarily for the guaranty of the loan

¹⁶ The interview with ACSI, Kuarit branch coordinator indicated the compulsory saving amount for end term loan = 10% and for monthly instalment loans = 7%. The interest rate for compulsory saving is 3%.

repayment. Yet, despite their low income earning, poor people should be encouraged and trained about how to save more than how to borrow.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATIONS

5.1. Summary and Conclusion

This study aimed at assessing the socio-economic contributions of microfinance institutions taking the ACSI Kuarit branch as a case. The group borrowers were the primary concerns of this study. More specifically, the study was intended to achieve the following specific objectives: to examine nature of group formation and level of trust among group borrowers; to describe the effectiveness of group lending method in including extremely poor peoples; to examine the contributions of the institution for the clients living condition; to describe the challenges and opportunities of group lending method in comparison to other lending methods; and to uncover the reasons why clients use ACSI credit service rather than other informal financial loan sources notably *Equib*, *Iddir*, and traditional money lenders.

To this effect, the study has employed methodological triangulation i.e. mixed methods research approach wherein the qualitative approach was the principal one. The informants for the qualitative methods (such as Key informant interview, in-depth interview and FGDs) were selected purposively. Furthermore, as part of the quantitative approach, a total of 234 survey respondents were selected by employing simple random sampling techniques. Accordingly, Questionnaires, key informant interviews, in-depth interview and focus group discussions (FGD) were employed as the major methods of data collection. This section, therefore, presents a summary of the study's major findings and conclusions.

The selection of beneficiaries conducted by teamwork consisting of the kebele administrators and the institution's field workers. This committee has the responsibility to examine the behavior of potential clients. After the evaluation is done, potential borrowers are required to form their group before receiving loans. Thus being nominated by the credit committee would not directly make borrowers beneficial to the credit services. Moreover, the group formation procedure exclusively belongs to the potential borrowers without any external intervention from the institution's workers.

As discussed in the theoretical framework (theory of social capital and joint liability model), group lending is grounded based on trust, network, and relationship thereby the poorest can be beneficiaries of the institution's credit service. But some variations are observed during the actual applications of this model. This study has uncovered that members must have physical

asset that would serve as a guarantee if client dropout happened later on. Hence, there is pre-classification of people upon their asset ownership status, as “good and bad credit risks”.

The primary focus of microfinance is assumed to alleviate poverty by providing access to financial services for low-income and disadvantaged populations. Specifically, the group lending method is assumed as one of the mechanisms to provide financial services for these groups of people. In this regard, this study found out that the effectiveness of the group lending method in comprising the poorest is not that effective due to two basic factors: One is a client-related factor (group formation trends of potential clients). The group formation procedure is not collateral free as it is alleged by microfinance institutions. Yet, this mechanism helps the institution to secure the loan repayment indirectly. The other factor is that the institutional factor i.e. on the side of microfinance institutions there are no conditions that can force potential borrowers to include poor people during group formation. Therefore, it can be concluded that the method is not that much effective in comprising destitute people who have their labor as their only asset.

The other concern of this study was the nature of group relationships and trust among group borrowers. This study found out that the existing relationship between group borrowers is not that much strong beyond having contact among them within a monthly interval for group meetings. Hence, the trustworthiness of an individual client within the group is determined by his/her physical collateral/ asset rather than their strong relationship that is developed within the group. Moreover, the loan of the institution has positively impacted the asset conditions of borrowers rather than their income saving. Therefore, it is fair to conclude that, without considering the group formation procedure and who the clients are, the credit service of the institution has assisted the borrowers in improving their living conditions.

To describe the challenges and opportunities of group lending method in comparison to other lending methods particularly individual loans was the other concerns of this study. Accordingly, though most microfinance institutions used group loaning models, at the same time some clients have a greater preference for individual loans than borrowing in a group. In the case of this study during FGDs most of the discussants reported the advantages of borrowing in a group. However, during an interview session, some clients pointed out the advantages of individual loans than borrowing in a group. The reason is borrowing in a group has a burden to the group members whenever the client default happened. Hence, the individual loan is advantageous since it avoids an unnecessary dispute with group members and it helps to escape from paying others' loans. Moreover, in the individual loan, loan utilization is easy and free

from group influence. One would work hard to pay his/her loan since he/she knows nobody would help him/her. In addition to that when clients borrow in a group the institution requested them the highest interest rate (19%) than other lending methods.

The other emphasis of this study was to uncover the reason why clients use ACSI credit rather than loans from other informal financial sources. Accordingly, for most of the clients, the reason for their preference was, in the latter case the amount of loan is too small whereas the interest rate is high.

5.2.Recommendations

Based on the findings of the study the following recommendations are forwarded:

The study reveals that there was little diversification of business activities and almost all of the loans were distributed for the purchase of agricultural input and animal fattening. At the initial stage of the loan distribution, the business plan was provided by the institution. Therefore, during business plan preparation, the institution should differentiate the business areas of the client's future engagement. As many of the respondents in the study indicated that the loan amount provided by the institution was not sufficient to run their businesses. This deters clients from engaging in those activities that require high initial capital. Especially most of the borrowers who were engaged in animal fattening used their own pocket money in addition to the institution's loan. Therefore, the loan amount of the institution should be reconsidered and be improved through being mindful of the existing market situation. It is evident that the smaller the loan size, the less will be the chance to engage in profitable activities that require high initial capital and that have high profit in the long run.

Currently, ACSI has been providing group loans with an interest rate of 19%. With this regard, respondents replied about the existence of a high interest rate of loans. Paying this amount of interest rate is very difficult especially for those novice clients of the institution to engage in business with a high interest rate. This may lead them to business failure and further poverty. Consequently, this might discourage others to take loans from the institution for the future. Hence, the institution should look for ways to minimize the interest rate of group loans. The National Bank of Ethiopia should also provide a legal framework that sets the maximum interest rate to be uniformly applicable throughout the country's' microfinance institutions.

Since the group formation exclusively belongs to potential borrowers without any external intervention from the institution, borrowers create their specific kind of collateral to reduce risks from member's dropout. This group formation procedure excluded extremely poor people since they have not physical collateral. The only resource they have on the side of the poor is their labor. Therefore, the institution should provide available means that make the poor beneficiaries of the institution's loan either using their labor as a guaranty or something else.

The study pointed out that the existing relationship between group borrowers is not that much strong beyond having contact among them within a monthly interval. Most of them did not have any contact elsewhere in terms of informal associations. As a result, the trustworthiness of an individual within a group is determined by his/her physical asset rather than their strong

relationship or network developed within the group. In this case, creating a strong relationship and trust among group borrowers is a mandatory task for the success of the institution as well as for the benefits of clients. Therefore, the institution should work to create a strong connection between group borrowers by assisting and inspiring the borrowers to form their associations and informal institutions such as *Mahiber* and *Eqube* by themselves. Or the institution should strive to create linkage with existing informal financial institutions and associations in the area. The training programs provided by the institution are more focused on the importance of credit, channels of credit distribution, loan repayment, the importance of group loan, group borrower's responsibility when they borrow in a group, area of investment and other related things. Thus, the training orientations have given little emphasis on saving. Despite their low income earning, poor people should be encouraged and trained about how to save more than how to borrow. Therefore, the most important element of the institution should not only be preaching about the contributions of credits but should also be geared towards training the various saving opportunities for their clients.

Finally, some microfinance institutions have package loans (food security loans) primarily aimed at helping farmers to achieve food security. In this type of loan, loans could be in cash or in-kind and the loans are given on an individual basis where the regional government provides full guaranty in the case of default. Hence, package loans have better terms and conditions of credit for clients compared to regular loans of the institution. For instance, in package loan, there is no group formation requirement so that it removes the entry barriers of the poorest since their problem is asset collateral. Besides, the package loans have relatively low-interest rates, larger loans, longer maturity period and grace period. Therefore, the Woreda Food Security Office (Kuarit) or Bureau of Agriculture in collaboration with the Regional Food Security Office should facilitate this type of loan to benefit the poor people.

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Appendix

Appendix A. Questionnaire for clients of the institution

ADDIS ABABA UNIVERSITY

College of Social Sciences/ Graduate Studies

Department of Sociology

Objective: Dear respondents the main purpose of this questionnaire is to assess the contribution of Amhara Credit and Saving Institution (ACSI) for the socio-economic development of clients. For the success of this study, you are kindly requested to put your response through transparency and honesty. Your information is required only for the research work so that the confidentiality of the information will be kept.

Thank you in advance!!

Direction

For close-ended questions please put an "X" in the box corresponding to the option that contains your answer, and for open-ended questions please write the answers on the space provided.

I. Socio-demographic characteristics of the respondent

1. Sex: Male Female
2. Age 18-23 24-29 30-35 36-41 42-47 48 and above
3. Marital Status: Single Married Divorced Widowed
4. Place of residence: Urban Rural
5. Occupation: Agriculture/Farming Small trade Handicraft service
others (please specify).....
6. Educational Level. Illiterate Able to read and write grade 1-4 grade
grade 5-8 grade 9-12 college and above
7. How many loans (number of loans) have you taken from ACSI so far?
1-3 times 4-6 times more than 7 times
8. How much loan you have borrowed from ACSI?
9. For what purpose have you taken the loan?

Consumption Agricultural inputs (fertilizer and seeds) Animal fattening
Petty trade Purchase of fixed assets 6. Others (specify).....

10. Did you use the loan entirely for the intended purpose (as stated on the loan application)?
Yes No if not, how did you spend the remaining amount?
.....

11. Is the loan amount sufficient for the intended purpose? Yes 2. No

12. How much is the interest rate (in percentage) of the loan?

13. How do you rate the interest rate on loan? Very high High Fair
Low Very low

14. Source to repay previous loan

From business profit through selling assets loans from other sources
others (specify).....

15. How do you see the change in your income and living conditions as a result of ACSI credit service?

Improved remained the same decreased

16. If your answer for No. 15 is “improved”, what are the indicators?

.....

17. If your answer for No. 15 is “decrease” what is the reason?

.....

Appendix B. Interview Guide questions for an in-depth interview with ACSI officials

1. Who are the beneficiaries of your institution's credit service?
2. What types of loan mechanisms does your institution provide to include the poor within your institutions' credit service?
3. How do you identify the poor to be the credit service beneficiaries of your institution?
4. What specific strategy or activity is required from clients to receive a loan? Do you require clients to develop a business plan while they applying for loans?
5. How the group borrowers organized to get loans from your institution? By themselves or the institution form the group? Explain the nature of group formation, composition, and interaction of group borrowers?
6. What is the mechanism used by your institution as collateral in group loans?
7. How effective is the group lending method to include the destitute, or extremely poor peoples into the credit scheme of your institution?
8. Have there been any incidents of borrowers' dropout? If so, what are the responsible factors for client dropout? How the group handles borrowers' dropout? Who will take the burdens? The group members? The institution? Or is there any other handling mechanism?
9. Describe the loan term, loan amount, the interest rate, and the repayment mechanism in the group lending method?
10. Is there any controlling mechanism for clients whether they use their loan for the intended purpose?
11. Did you provide training for clients before and after loan provision? If so, how many times do you provide training for clients on the average in a single term of the loan?

Appendix C. Interview guiding questions for an interview with clients of the institution

1. When did you join the program? How did you become a client of ACSI? Where did you get the information? The number of loans you have taken as a client so far?
2. How did your group formed? Explain the group formation, group composition and interaction between group members?
3. How much you have trust in your group members? What mechanism is employed to uphold trust within your group borrowers?
4. Have there been any incidences of client dropout from your group? If so, what was the main reason for default? Who will take the risk of it? The group or the institution?
5. Are there any situations of contact between group members somewhere else, for instance in *Eddir, Mahiber* or *Eqube*?
6. Have you ever borrow money from other informal loan sources such as money lenders, *Eqube, Iddir, etc.*? If yes, why you have chosen to borrow money from ACSI now? How do you see the loan services of ACSI in comparison to other means of loan?
7. How do you see the loan amount, repayment period and interest rates of the institutions' credit services?
8. What do you think of the contribution of ACSI? Is there any change in your living conditions after you join the institution as a client? What are the indicators? Have you used the loan money entirely for the intended purpose?
9. How do you see the group lending method in comparison to other lending methods? What are the main opportunities of borrowing in a group? What are the challenges behind using the group lending method?

Appendix D. Focus Group Discussion guiding questions with the clients

1. How many members does your group have? What are the requirements to form the group? Discuss how did you become a member of the group loan?
2. In what interval did you attend in a group meeting? What are the issues arise during the meeting?
3. How does your group uphold trust among the group members? What are the mechanisms to maintain trust within the group members?
4. Have there been any incidents of a member defaulting from your group? If so, what was the main reason? What types of a regulatory mechanisms used to control borrower dropout?
5. How the group handles the client dropout? Who will take the risk? The group or the institution?
6. Do you have any support mechanism among the group members? Explain it?
7. How do you see the group lending method in comparison to other lending methods? Discuss the challenges and opportunities.
8. Is there any change in the income and living conditions brought as a result of the ACSI credit service? How do you see the change?

Appendix E. List of research participants for Key Informant, Focus Group Discussions, and Semi-Structured Interviews

Respondents for key-informant interview

No.	Research participants	The whereabouts of participants
1	Key Informant #1	The Office Coordinator of ACSI Kuarit branch
2	Key Informant #2 - #4	Three selected Informants from ACSI, Kuarit branch senior workers

List of Focus Group Discussion Participants

Focus Group Discussion One

Discussants' names	Pseudo	Sex	Age	Place of residence	Purpose of the loan
Aschale kebede		Male	59	Rural	Animal fattening
Derbe Ababe		Male	31	rural	Animal fattening
Sewreg Bekalu		Female	41	Rural	Purchasing for agricultural input
Wubale Gebre		Female	37	Rural	Purchasing for agricultural input
Denekew Desse		Male	43	rural	Animal fattening
Yezna Belay		Female	51	rural	Animal fattening

Focus Group Discussion Two

Discussants' names	pseudo	sex	Age	Place of residence	Purpose of the loan
Asene Ante		Female	45	Rural	Anima fattening
Biyadg Alaye		Male	38	Rural	Purchasing for agricultural input
Tiru Bekele		Female	43	Rural	Small trade
Mare Zegeye		Female	33	Rural	Animal fattening
Nure Asmare		Male	36	Rural	Purchasing for agricultural input
Zewda Yeneneh		Female	31	Rural	Animal fattening

List of research participants for in-depth interview purposes

<i>Respondents Pseudo names</i>	<i>Sex</i>	<i>Age</i>	<i>Place of residence</i>	<i>Position in the group</i>	<i>Number of loans they have received so far</i>
1.Dagne Yalew	Male	46	Rural	Group leader	Seven
2.Shumet Dilu	Male	37	Rural	Member	Two
3.Zina Melese	Female	29	Rural	Group leader	Five
4.Addise Alem	Female	52	Rural	Group leader	Nine
5.Melese Arega	Male	45	Rural	Group leader	six
6.Shimels Baye	Male	34	Rural	Member	Four
7. Dreje Mena	Male	59	Rural	Group leader	Eleven
8.Etalem Cheru	Female	39	Rural	Group leader	Eight
9.Alebe Kebede	Male	43	Rural	Group leader	Eight
10.Achenef Zeru	Female	46	Rural	Group leader	Four

Appendix F. Field photographs during data collection





Declaration of Originality

I, Sintayehu Yihunie, hereby declare that the thesis entitled “An Assessment of the Amhara Credit and Saving Institution (ACSI) Lending Practices: The Case of Kuarit Woreda, Amhara Region, Ethiopia” is my original work and has never been presented or published in any other institution. I also declare that any information used in this thesis has been dully acknowledged.

Sintayehu Yihunie

Signature _____

Date _____

