

**ADDIS ABABA UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**THE ROLE OF ADDIS CREDIT AND SAVING INSTITUTION IN  
URBAN POVERTY ALLEVIATION; CASE STUDY OF LIDETA  
SUB CITY CREDIT SCHEME.**

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**The role of Addis Credit and Saving Institution on urban poverty alleviation; case study of Lideta sub city credit scheme.**

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## *Abstract*

*Micro finance can be defined as a term that refers to the provision of financial services to low income clients; financial services include savings and credit, insurance, payments services. The idea was initiated by Muhammad Yonus in Bangladesh. Starting from the establishment of micro finance during 1970s, it has shown a tremendous growth and expansion throughout the world. Now it is being practiced in many developing countries to address the low income society and thereby to improve their livelihood.*

*In Ethiopia, micro credit programs were introduced as components of NGO operation in the 1980s, and the NBE (National Bank of Ethiopia) proclamation NO.40/1996 helped to create many micro finance institutions. There is a wider agreement about the goal of micro finance, i.e. to improve the welfare of the poor through enabling them to participate in income generating activities, empowering women, create employment opportunity etc. But this wide agreement about the goals has not led to wide agreement how best to achieve that objective in practice. Hence, the study is interested to explore the practical impact of micro finance programs on urban poverty alleviation. To examine the success of micro finance in attaining the cited positive impacts with respect to the urban poor, the extent and success of out reaching the targeted urban poor.*

*Methodologically the study uses both primary and secondary data. The primary data are collected from clients of Addis Credit and Saving Institution by taking Lideta Sub City as a case study. Out of the total borrowers in the Sub City, 125 sampled respondents (10% of total clients) are interviewed on various issues. The findings show that there is a positive and promising outcome in areas of credit operations (types, terms, conditions), saving mobilization (type and magnitude), credit utilization of the borrowers, giving priority to women, changing the living standard, loan size on the existing actively participating in the program. On the other hand, the program has also its shortcomings in areas such as; outreaching the targeted urban poor, practicing group lending methodology, lending interest rate, creating employment opportunity, and training and promotion to encourage the urban poor to participate in the program.*

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## Table of contents

Content	Page No
Abstract .....	I
Acknowledgement.....	II
Table of Content .....	III
List of Tables.....	VI
List of Bar graphs.....	VI
Acronyms .....	VII

### Chapter One

#### Introduction

1.1. Background of the study .....	1
1.2. Statement of the problem.....	3
1.3. Objective of the study .....	6
1.4. Methodology of the study .....	7
1.4.1. Data Source and Collection .....	7
1.4.2. Sample area and design .....	8
1.4.3. Data analysis .....	10
1.5. Scope of the study .....	10
1.6. Limitation of the study .....	11
1.7. Organization of the paper.....	11

### Chapter Two

#### Theoretical frame work

2.1. What is micro finance?.....	13
2.1.1. Historical review of micro finance .....	14
2.1.2. Size and growth of micro finance institutions.....	16
2.1.3. Risks of micro finance.....	17
2.1.4. Objectives of micro finance institutions.....	18
2.2. Products and Services .....	19
2.2.1. Financial intermediation .....	20
2.2.2. Social intermediation .....	23
2.2.3. Social services.....	25
2.3. Managing of micro finance .....	25
2.3.1. Productivity .....	26
2.3.2. Efficiency management.....	28
2.4. What is poverty? .....	29
2.4.1. Concepts and definitions of poverty .....	29
2.4.2. Role of micro finance in serving the poorest people.....	30
2.4.3. Challenges in serving the poorest .....	31
2.5. Micro finance and women empowerment .....	32
2.5.1. Are women better customers? .....	33
2.5.2. Women empowerment .....	34

2.6. Types of financial institutions.....	34
2.6.1. Formal financial institutions .....	35
2.6.2. Semi formal financial institutions.....	36
2.6.3. Informal financial providers.....	37
2.7. Experience of some African nations in micro finance.....	38
2.7.1. Nigerian experience .....	38
2.7.2. Group lending in Malawi .....	39

## **Chapter Three**

### **Historical review of micro finance industry in Ethiopia**

3.1. Historical development of the financial sector .....	42
3.1.1. The era of introduction .....	42
3.1.2. The take off stage .....	43
3.1.3. The period of stagnation.....	43
3.1.4. The period of revitalization .....	44
3.2. Financial service providers in Ethiopia.....	44
3.1.1. Formal financial institutions .....	45
3.1.2. Semi formal financial institutions .....	46
3.1.3. Informal financial providers.....	46
3.3. Micro finance development in Ethiopia .....	47
3.3.1. Micro finance in Ethiopia .....	50
3.3.2. Legal frame work for micro finance institutions in Ethiopia.....	51
3.3.3. Growth and out reach of micro finance institutions in Ethiopia .....	54
3.4. Review of related literature about micro finance in Ethiopia.....	57
3.4.1. Some challenges of micro finance as antipoverty strategy.....	58
3.4.2. Usage and impact of micro credit provision .....	60

## **Chapter Four**

### **Discussion and data analysis**

4.1. Socio-economic profile of Lideta sub city.....	63
4.1.1. Demographic characteristics.....	63
4.1.2. House hold income and housing conditions .....	64
4.1.3. Education and health status .....	64
4.2. An overview of Addis Credit and Saving Institution.....	65
4.2.1. Organization and management .....	66
4.2.2. Objective, mission and vision of the institution.....	67
4.2.3. Credit operation policies.....	67
4.2.4. Saving operation policies .....	69
4.3. Questionnaire analysis.....	70
4.3.1. General characteristics of sampled respondents .....	70
4.3.2. Out reach of the program .....	72
4.3.3. Credit utilization.....	75
4.3.4. Change in living standard and employment opportunity .....	78
4.3.5. Interest rate and loan size .....	79

4.3.6. Training and promotion .....	82
4.3.7. Women empowerment .....	84
4.3.8. Challenges and/or opportunities for clients .....	87
4.3.9. Group formation, credit operations, and saving mobilizations.....	90

## **Chapter Five**

### **Conclusion and Recommendation**

5.1. Conclusion.....	93
5.2. Recommendation .....	97
<b>Bibliography</b> .....	VIII
<b>Annex .I</b> Questionnaire Amharic Version .....	XI
<b>Annex .II</b> Questionnaire English Version .....	XII

## List of tables and Bar graphs

<b>Tables</b>	<b>Page No.</b>
Table1. Out standing loan and clients as June 1998 E.C.....	7
Table 2.Active clients of AdCSI in Lideta sub city.....	9
Table3. Sample of clients from total borrowers in Lideta sub city .....	9
Table4. MFIs out reach as of December 31, 2006 .....	49
Table5. Loan disbursed, saving mobilized, No. of clients from year 1996-1999E.C.....	66
Table 6.Distribution of respondents by age and sex.....	70
Table 7.Family size and educational level of respondents.....	71
Table 8.Disribution of respondents on occupation and standard of living.....	72
Table9. Average monthly income and expenditure.....	73
Table 10.Distribution of respondents according to the reason that promotes them.....	76
Table 11.Distribution of respondents according to the purpose and amount used.....	77
Table 12.The change of respondents on their living standard and employment.....	78
Table 13.Distribution of respondents according to their response to interest rate.....	80
Table 14.Distribution of respondents according to loan size.....	82
Table 15.Distribution of respondents according to their know how about AdCSI .....	83
Table 16.Distribution of respondents to credit plus program.....	84
Table17. Distribution of respondents on aspects of women empowerment.....	86
Table18. Distribution of respondents according to challenges and opportunities.....	88
 <b>Bar graphs</b>	
Bar graph1. Average monthly income.....	74
Bar graph 2.Average monthly expenditure .....	74
Bar graph 3.Response of respondents to interest rate.....	80

## Acronyms

<b>ACSI</b>	- Amhara Credit and Saving Institution
<b>AdCSI</b>	- Addis Credit and Saving Institution
<b>AEMFI</b>	- Association of Ethiopian Micro Finance Institutions
<b>AVFA</b>	- African Village Finance Service
<b>CSA</b>	- Central Statistical Authority
<b>DECSI</b>	- Debit Credit and Saving Institution
<b>LLDP</b>	- Lilongwe Land Development Program
<b>LDCs</b>	- Less Developing Countries
<b>MEDAC</b>	- Ministry of Economic Development and Cooperation
<b>MFIs</b>	- Micro Finance Institutions
<b>NGOs</b>	- Non Governmental Organizations
<b>NBE</b>	- National Bank of Ethiopia
<b>OCSSCO</b>	- Oromia Credit and Saving Institution
<b>RCST</b>	- Rural Credit Scheme in Tigray
<b>REST</b>	- Relief Society of Tigray
<b>SCA</b>	- Saving and Credit Association
<b>SFPI</b>	- Special Financial and Promotional Institution
<b>SME</b>	- Small and Micro Enterprise
<b>SWOT</b>	- Strength Weakness Opportunity Analysis
<b>UNCHS</b>	- United Nations Center for Human Settlement

# Chapter one

## Introduction

### 1.1. Back ground

Development is the most desirable issue and target of every community in the world. The development efforts made by the developing world in the last three to four decades did show success in some nations (like Taiwan, HongConk, Singapore etc). However, the majority of less developed countries, particularly African nations, are not running out of problems. There are numerous economic and non-economic problems that obstruct economic growth and development as well. Among those numerous problems, poverty is the main bottleneck that curbs economic growth in Africa where it is often prevalent in urban as well as rural areas (Hogendron, 1992).

Poverty is often related to inadequate income but recent studies emphasize that it is a multidimensional aspect. Its dimensions can be identified as lack of assets (material possession), resources (access to credit, extension, education, health, and water), knowledge (information ranging from technology to political ideas), and rights (social, political, and economic spheres falling in the legal and traditional domain). Thus, poverty alleviation efforts require multifaceted interventions because non-dimensional measures can not adequately confront its ills. An effective poverty alleviation strategy requires innovative measures, outreach programs, experimentation and expanding financial institutions to provide material possessions and opportunities to obtain income to meet basic needs. (Rajasekhar, 2004).

The belief that is still widely held is, one of the most important constraints on the well being of the urban poor in LDCs is lack of access to cheap institutional credit and savings services. In these nations, where informal financial sectors have a long history, urban indebtedness from private money lenders is common. However, there are formal financial institutions such as commercial banks and development banks which provide credit. Nevertheless, throughout

their history these formal financial institutions are limited in their influence on the urban poor due to their reluctance to provide credit without collateral (Schreiner, 2002).

Ethiopia is desperately poor; it ranks 170 out of 177 countries in the United Nations Human Development report. Poverty in Ethiopia affects the majority of the population; 31% of the million people live below the poverty line. The economy and livelihood of the majority are predominantly based on agriculture, which accounts for 85% of employment, 45% of national income and over 90% of export earning (MEDAC, 2000). However, though it is understood that agriculture is the backbone of the economy, its production and growth has long been extremely unsatisfactory. The rate of growth of the sector's production has constantly been lagging behind the rate of growth of the population. Hence, food security is a major challenge, where 15 million people are at risk of food insecurity, and over 8 million people are classed as chronically food insecure. Rural Ethiopia is exceptionally poor and can be characterized as having serious problems even to feed themselves from the subsistence agriculture. As a result, a lot of the rural young migrate to the near urban areas which aggravate the unemployment rate of the urban centers (UNICEF, 2004).

Many practitioners, donor agencies, non-government organizations of different nations have come to one consensus for poor countries (in which their population is dominated by the poor), their attention in economic growth and development should be towards addressing the (rural and urban) poor society. Accordingly, the Ethiopian government has made poverty alleviation in rural and urban areas one of its primary concerns among various development plans. In Ethiopia, urban centers which are characterized by lack of adequate employment opportunities, inadequate income, social and political instability, are the government's priority intervention areas in poverty reduction. As a result, in support of the rural development programs, different urban based development programs are taking place throughout the nation; among these is micro finance service in urban areas.

Development agencies assign importance to micro-finance in poverty alleviation. Micro-finance implies providing the poor with savings, credit and insurance facilities to set up or expand income generating activities relating to petty trade, agriculture allied activities and thereby to increase household income security. Due to excessive interest rates of informal lenders and the reluctance of formal financial institutions to give credit and saving services to the poor, micro finances are established based on social collateral rather than physical collateral to increase the general wellbeing of the poor in the urban areas (Schreiner, 2002).

However, despite the agreement about the goal of micro finance to improve the welfare of the poor has not led to agreement about how best to achieve that goal in practice. Hence, the paper has been prepared to discuss some aspects of micro-finance related to their contribution in poverty alleviation; and how the urban poor are responding to these institutions practicing recently. In addition, it is also appropriate and usefull to critically examine whether those micro-finance institutions meet the demand for finance by the urban poor, and whether the existing services have features that adequately help the poor to come out from poverty, and meet the preference of the urban borrowers and savers.

## **1.2. Statement of the problem**

Urbanization is an integral process of development. When it is backed up by good policy intervention, it represents a shift of workers to higher productivity of sectors and occupations such as services, commerce, and manufacturing (Beker, et.al, 1994). It can also allow people to enjoy better services, education, health, water etc. On the other side, it can create formidable problems to its residents when it is not administered effectively. Problems of deprivation, lack of access to essential needs of human beings, inadequate income, and homelessness etc are all common manifestations of urban poverty. These problems are intense and can often lead to social and political instability. Urban poverty is both a major cause and consequence of urban problems. A clear understanding of the magnitude, nature and intensity of urban poverty is needed

in order to address and alleviate the problems (Mills and Perenia cited in UNCHS, 2000)

Ethiopia with the guiding frame work of the Agricultural Development Led Industrialization policy; rural poverty has preoccupied the concern of government and donor agencies. This is so because the majority of the people (84.87%) reside in rural areas that are affected by various causes of poverty such as drought, war, failure of rain etc (CSA, 2004). With increasing population growth and rural urban migration, urbanization, however has increased in Ethiopia; and simultaneously urban poverty has been rise. It is estimated that about 60.5% in 1994 out of the urban population were below the poverty line (Million cited in UNICHHS, 200). According to the World Bank report 1998, the situation in urban areas is marked by declining income and well being, increased insecurity, rising crime and prostitution. The rising trend of unemployment due to lay offs from public enterprises, demobilization of soldiers, increased school leavers, increased rural-urban migration, increased casualization of the labor market, inability to produce new jobs, inadequate development of private investment , and the increase in food prices, are factors for the decreased income in the citizens (world Bank, 1998). Other dimension of urban poverty included poor environmental conditions, lack of social work, violence and insecure tenure status, absence of mechanisms to involve the poor in the decision process, negative effect of government actions and policies (Haan, 1997).

Addis Ababa, the capital city, serves as a seat of government, having both national and international significance. In the study of urbanization though it has few years of history compared to other cities like Axum, Gondar, Lalibella, Harare etc, it is the most populated city in the nation. Addis Ababa has 10 sub cities, consisting of 305 Kebeles, and 23 farmers associations. Kebele is the smallest administration unit in the city. According to the 1994 census recorded the population of the city was 2,112,737 people where migration accounts almost 46.4% and the projection for 2000 is estimated to be 2,495,000 (CSA, 1999).

Addis Ababa shows a paradoxical situation in Ethiopia. On the one hand, with highest concentration of facilities per population than other centers in the

country enjoys a privileged position. On the other hand, the City is not capable of accommodating the increasing population that is being by the luring facilities and seemingly employment opportunity. Thus, like other urban centers of the nation, poverty is rampant and wide spread in the city. The incidence of poverty indicates that in 1997, 49.5% of the population was below the poverty line which means they have not sufficient income to purchase the minimum food to survive. The total unemployment rate in 1994 was 34.7% that rises recently (CSA, 1999). Thus, urban poverty beleaguers the city and requires serious attention to curb the consequential disaster.

It is for decades where various efforts have been made to curb poverty through different development strategies and policy interventions at national level. Among these strategies, the provision of micro-finance services is one to reachout the poor through setting up micro finance institutions in different regions. As part of this initiation, the National Bank of Ethiopia issued the proclamation No 40\1996 aiming to provide for licensing and supervision of micro finance business (Gebrehiwot and Mulat, 2005). According to the study undertaken by the World Bank (1999), micro finance institutions have some impact based objectives that frequently cited. These are to create employment and income opportunity, to increase productivity and income, and to diversify source of income (Zaid, et.al. 2002)

Hence, the study has been interested to explore the impact of micro finance institutions on urban poverty alleviation, i.e., to examine that do micro finance institutions become successful in attaining the cited positive impact with respect to the urban poor? To what extent do micro finance programs are effective and successful in reachingout the targeted urban poor? What problems (difficulties) the program does have in the livelihood of the urban poor? In many developing nations the answer for such question is mixed, thus assessing the role of micro finance institutions with respect to poverty alleviation became very crucial to the successfulness of the program and to the beneficiaries as well. In this paper, impact assessment taking Addis Credit and Saving Institution share

company (AdCSI S.C.) and its practice in Addis Ababa City Administration taking Lideta Sub City as a case study has surveyed.

### **1.3. Objective of the study**

#### **i. General objective**

The general objective of the study is to investigate the role of micro finance program practiced by Addis Credit and Saving Institution in urban poverty alleviation in Lideta Sub City.

#### **ii. Specific Objectives**

Having the above mentioned general objective, the study has the following specific objectives such as...

- 1 Investigate the out reach of Addis credit and saving Institution S.C. program, i.e., who are the beneficiaries? Does really Addis credit and saving institution program benefit the targeted urban poor in Lideta sub city?
- 2 To What extent does Addis Credit and Saving Institution S.C. program such as saving mobilization, credit operations, and group formation contribute to poverty alleviation in Lideta Sub City?
- 3 Examine the credit utilization of the people to the targeted issue, i.e., to what extend the fund has been utilized for the intended purpose in Lideta Sub City.
- 4 To what supportive training and promotion have been made by the institution before and after taking the loan to enable urban poor clients under take in income generating activities in Lideta Sub City?
- 5 How do clients of Addis Credit and Saving Institution in Lideta Sub City S.C. respond to the interest rate charged and loan size of the institution?
- 6 What opportunities or challenges do clients of AdCSI S.C. in Lideta Sub City are facing in getting and utilization of credit?

Lastly, based on the findings the researcher will try to recommend and suggest some possible implications and remedies

## 1.4. Methodology of the study

### 1.4.1. Data sources and collection

Both primary and secondary data have been used in the process of preparing the paper. The primary data has been collected from AdCSI clients who are beneficiaries of the program using structured interview schedule. Information pertaining to these clients and their family socio economic characteristics like resource level, number of family, and response to credit use, their experience in credit utilization, access to micro finance service, educational status etc has obtained directly through interview schedule.

AdCSI is practicing in all sub cities of Addis Ababa city administration. According to AdCSI 1998 E.C. budget year report, there were 58947 out standing clients taking loan for different activities like garment, food processing, metal and wood works, construction, and others like petty trade. Up to the budget year (1998 E.C.) 116405419 Birr loan has been disbursed.

**Table.1.** out standing loan and clients as of June, 1998 E.C.

Sub city	male	female	total	Loan disbursed birr
Arada	2717	3836	6553	12465131
Adis ketema	2954	3477	6431	10477718
Lideta	1854	3175	5029	7308299
Kirkos	2002	4015	6017	8054417
Yeka	4055	5823	9878	25783004
Bole	1944	3220	5164	9345834
Akaki	1559	2044	3603	8220500.41
Nefas silk	1820	2479	4299	9324517
Kolfe	2063	2336	4399	8629786
Gulele	3759	3563	7322	12880027.4
Micro bank	221	31	252	3916187
<b>Total</b>	<b>24948</b>	<b>33999</b>	<b>58947</b>	<b>116405419</b>

*Source; AdCSI 1998E.C. budget year report*

Appropriate orientation has been given to enumerators to develop their understanding regarding the objective of the study, the content of the interview, how to approach respondents and conduct their interview in collecting the primary data. More over, personal observations and discussions have collected from AdCSI official documents, Association of Ethiopian Microfinance Institutions (AEMFI), and other publications to gather additional information.

#### **1.4.2. Sample area and design**

Lideta is one among ten sub cities of Addis Ababa city administration located in the main city centers. Geographically it is between  $9^{\circ} 0'22''$ -  $9^{\circ}0'6''$  North latitude and  $38^{\circ}40'48''$  East longitude. Its neighbors are; in the south kirkos sub city, in the west kolfe keranio sub city, in the north Addis ketema sub city, and in the east Arada sub city. The total population of the sub city is 296,073 and 35986 house holds which ranks 7<sup>th</sup> in population size, and the total population is estimated to be 400,000 with 3.8% annual growth rate after 10 years. The total area of the sub city is 1240.4 hectare and the density is 238.96 per hectare. The sub city is established according the proclamation NO. 1/1995 of Addis Ababa city administration, and It has 9 kebele administrations, 45 government and private owned schools, 63 government offices, 83 private institutions, 22 religious institutions, 4 government owned and 1 private owned hospital, 3 health stations, 34 private owned and 21company owned clinics, 3 NGOs. AdCSI has 8 sub branches in 9 kebeles (source; Culture and Information office of Lideta sub city 1995 E.C. reference year).

**Table.2.** Active clients of AdCSI in Lideta sub city (1999 E.C.)

S.No.	Kebele	No. of clients	Loan disbursed in birr
1	01/08	130	530500
2	02/03	110	552200
3	04/06	105	334200
4	05/08	143	385500
5	07/14	375	160000
6	09/10	118	360200
7	11/12*	175	858500
8	15/16/17	96	405200
9	<b>TOTAL</b>	<b>1252</b>	<b>5323600</b>

*Source; AdCSI's Lideta sub city brunch 1999 E.C.*

There are 1252 clients in Lideta sub city that actively participating in the program of AdCSI in 1999 E.C. The primary data has collected from each kebele by conducting a house hold survey, and simple random sampling procedure has employed by taking 10% as a sample fraction.

**Table.3.** sample of clients from total population of Lideta sub city

S.No.	kebele	Total no. of clients	Sample fraction (10%)
1	01/18	130	13
2	02/03	110	11
3	04/06	105	11
4	05/08	143	14
5	07/14	375	37
6	09/10	118	12
7	11/12*	175	17
8	15/16/17	96	10
9	<b>Total</b>	<b>1252</b>	<b>125</b>

11/12\* - two kebeles merged as one sub brunch

A total sample of 125 clients from total clients of 1252 has included in the survey. Lideta sub city is selected as a sample area intentionally because it is one of the sub cities which have large number of poor residents in the city. Especially kebele 09/10 is one of the poorest and densely populated areas of the city. In gathering data large number of the sampled female clients has interviewed. The justification behind using more females as a sample is that they can be good indicators for poverty related studies.

### **1.4.3. Data analysis**

The data collected from different areas and actors have rearranged with respect to the service in question, and the qualitative and quantitative data has tabulated in the way that enable the view of the actors in the micro finance program. That is, describe the micro finance program, identify clients and channel of the program, describe its function and identify the constraint encountered by clients, and the role of micro finance on their livelihood. To simplify the analysis of data the coded data of the research questions has entered in to computer and analyzed using the statistical package for social studies (SPSS). Finally, simple statistical analysis such as frequency distribution, percentage, and cross tabulation has been used to find out the result.

## **1.5. Scope of the study**

Micro finance program is one of the recent widely practiced activities made by government, NGOs, individuals to alleviate poverty and improve living standard of the poor. It covers a wide range of issues like economics, politics, social, psychological; culture etc, but the focal area of the concern for this paper has been more on the economic aspects. The other variables have also treated to some extent because that can have a tremendous impact on poverty rationale. Micro finance program is practicing almost in all regions of the nation, both government and private owned institutions, however, the study did not cover all areas that the program is exercised rather it has limited to the study of government owned institutions practiced in Addis Ababa areas by taking AdCSI as a sample for investigation to support the paper with practical evidence.

As we can understand from the historical perspective of micro finance in Ethiopia, it was evolved in 1980s as a development approach (Gebrehiwot, 2002). But the paper didn't cover all micro finance institutions that were/are practicing from 1980s rather it gave a due emphasis and examine on micro finance institutions that are practicing yet in Addis Ababa by taking AdCSI's practice in Lideta sub city for case study. AdCSI is exercising its program starting from its establishment (on January, 2000) and it is difficult to cover all practices of AdCSI and its impact from its establishment. To support the study with practical investigation, the research will use respondents of AdCSI clients, and AdCSI officials in order to accommodate the needed information from different angles with different understandings.

## **1.6. Limitation of the study**

The writer of this paper has encountered number of problems during conducting the study. First, due to financial constraint the study has made on a very limited area with small sample size, i.e., out of the total borrowers of AdCSI only 125 clients from Lideta sub city has taken as a sample. Hence, the information obtained and conclusions arrived are only an indication based on the sampled borrowers to wards further detailed investigation and policy review. The second methodological problem that can be put as limitation is the implicit counter factual quality of investigation due to poor understanding of urban clients to wards educational studies.

## **1.7. Organization of the paper**

The paper has been classified in to ~~five~~ main chapters; each chapter has its sub sections. The first chapter introduces the paper that includes back ground of the study, statement of the problem, general and specific objective of the study, methodology of the study, scope of the study, limitation, and organization of the paper. The second chapter deals about theoretical frame work .i.e., definition of micro finance, products and services, managing micro finance, micro finance and gender empowerment, types of financial institutions, and experience of some African countries in micro finance. The third chapter comprises the

historical development and growth of the financial sector in Ethiopia, financial service providers in Ethiopia, micro finance development in Ethiopia, and review of related literature about micro finance in Ethiopia. The fourth chapter, the main body of the paper includes discussion and questionnaire analysis. At last the fifth chapter includes conclusion and recommendation.

# Chapter two

## Theoretical frame work

### 2.1. What is Micro Finance?

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

Ledgerwood, (2002) has also defined micro finance as a term that refers to the provision of financial services to low income clients, including the self employed. Some Micro Finance Institutions (MFIs) also provide insurance and payment services. Moreover, MFI's also provide social intermediation and social services. Thus, according to Ledgerwood, micro finance often includes both financial and social intermediation. It is not simply banking but a development as well (Ledgerwood, 2002). “Micro finance is the supply of loans and saving services to the poor” (Schreiner, 2002). Rajasekhar (2004) defines micro finance as providing the poor with savings, credit and insurance facilities to set up or expand income generating activities relating to agriculture, allied activities and non farm sectors with household income security as its goal. Theoretically it is believed that micro finance enables the poor to improve their confidence and household security. Access to consumption credit enables the poor to undertake income generating activities through which poverty can be reduced. Aghion and Murdoch (2004) define microfinance as broader term, i.e., it is beyond micro credit. Microfinance embraces efforts to collect savings from low income households, to provide insurance (micro insurance), and in some places to help in distributing and marketing clients' products.

In general, many writers associate micro finance with the provision of small loans to the poor. Both the product (loan) and the market (the poor) fall within the purview of micro finance, but they are more its origins than its present and future. It is understood that the micro-finance industry developed from a history of micro credit programs, but it has grown to cover a broader range of products and services, including credit and savings, insurance, money transfer, social services and intermediation. Many also speak in more general terms of micro-finance as the provision of financial services to those excluded from the formal financial system: reaching those excluded from formal financial services not just due to lack of wealth, but also social, cultural and gender barriers. Effective microfinance is positioned to overcome a variety of access barriers to a wide range of financial services for the variety of customers who are excluded from the financial system.

### **2.1.1. Historical review of micro finance**

The roots of micro-finance can be found in many places, but the best known historical foundation of microfinance is the story of Muhammad Yunus and the founding of Bangladesh's Grameen Bank. Aghion and Murdoch (2004) The 1970s were a period for Bangladesh to start the long road to build a new nation. During 1973/74 period, over 80% of the population lived in poverty that resulted from the challenges of fierce war for independence in 1971 from Pakistan, and wide spread flood brought on a famine that killed ten of thousands (Bangladesh of statistics cited in Aghion and Murdoch; 2004). Mohammed Yunus, an economist trained at Vanderbilt University, started a series of experiments lending to poor households in a nearby village called Jorba in 1976. He found that borrowers were not only profiting greatly by access to the loans but they were also repaying reliably. In 1976 Yunus convinced the Central Bank of Bangladesh to help him to set up a special branch that catered to the poor residents of Jobra. That soon spawned another trial project, this time in Tangail in North-Central Bangladesh. Assured that the successes were not flukes or region specific, Grameen went nation wide. Group lending was the innovation of Grameen that allowed it to grow explosively, since it is mechanism that

essentially allows the poor borrowers to act as guarantors for each other. With group lending in place, the bank had quickly grown village by village as funding permitted. By 1991 the Grammeen Bank had over one million members in Bangladesh, and the bank grew by 40% per year. Today, replications of the above system exist in 30 countries, from east Timor to Bosnia (Aghion and Murdoch, 2004).

The Grammeen group lending system was exercised by giving a loan to groups consisting of five borrowers each; and the five member group is part of a "center" composed of light group. Repayments are made in public, before the forty members of the center in weekly installments. Group lending thus takes advantage of local information, peer support, and if needed, peer pressure. The joint liability condition is the most celebrated feature of the grammar contract, and the reason behind microfinance being closely associated with the idea of group lending. Grammeen creates "dynamic incentives" and generates information by starting with very small loans and gradually increasing loan size as customers demonstrate reliability. Women make up the bulk of Grammeen borrowers and they are often more reliable customers than their husbands (Khandker, 1998).

While the words micro-credit and micro-finance are often used interchangeably, they have a big difference in opinion. One of the great departures in microfinance is the shift from offering small loans to collecting savings from low income households, providing insurance, and helping in distributing and marketing clients. Micro-credit was coined initially to refer to institutions like Grammeen Bank that were focusing on getting loans to the unbanked. The focus was explicitly on poverty reduction and social change, and the key players were NGOs. The push to microfinance came with the recognition that households can benefit from access to financial services more broadly defined (at first the focus was mainly on saving) and not just credit for micro enterprises. With the change in language has come a change in orientation towards "less poor" households and towards the establishment of commercially oriented, fully regulated entities (*Ibid*).

### **2.1.2. Size and growth of micro finance institution**

Sustainable banking with the poor project compiled a world wide inventory of MFIs in 1995/96. According to the survey result, by September 1995 about US\$ 7 billion in outstanding loans had been provided for more than 13 million individuals and groups. In addition, more than US\$ 19 billion had been mobilized in 45 million active deposit accounts. Credit unions represented 11% of the total number of loans in the sample and 13% of the outstanding loan balance. NGOs made up more than half, but they accounted for only 9% of the total number of outstanding loans and 4% of the outstanding loan balance. NGOs relied heavily on donor funding or concessional, offering the smallest loan sizes and relatively more social services than banks and credit unions. Credit Unions and banks are leaders in serving large number of clients with small deposit accounts. Overall the findings suggest that favorable micro economic conditions, managed growth, deposit mobilization, and cost control are among the key factors that contribute to the success and sustainability of many micro finance institutions (Ledgerwood; 2002).

Starting from the early stage of microfinance (1970s), the industry has grown for several reasons. The promise of realizing the poor, financial sustainability, the potential to build on traditional systems, contribution to strengthening and expanding products as a result of experimentation and innovation are the main factors for the consistent growth in the industry. Microfinance activities can support income generation for enterprises operated by low income households. It can also help to build financially self sufficient, subsidy free, and often locally managed institutions. The provision of service similar to traditional system with greater flexibility make micro finance services very attractive. Microfinance is not a weapon to weaken formal financial institutions; rather, it can strengthen existing formal financial institutions such as savings and loan cooperatives, credit union networks, commercial banks, and even state-run financial institutions by expanding their markets for both savings and credit, and potentially their profitability. The innovations that have solved the problem of lack of collateral by using group based approaches, high frequency of

repayment collection for problem of repayment discipline, the use of social and peer pressure solving problems of transactions costs by moving some of these costs down to the group level and by increasing outreach, designing staff incentives to achieve greater outreach and high loan repayment, and providing saving services that meet the needs of small savers have been very effective. These factors have caused microfinance to expand, and it is becoming clear that effective, efficient, and sustainable institutions are needed to provide financial services well suited to the demands of low income clients.

### **2.1.3. Risks of microfinance**

Though it is understood that effective and efficient microfinance activities based on best practices play a decisive role in providing the poor with access to financial services through sustainable institutions, there have been more failures than successes.

Productive credit is a type of loan provision for low income men and women who engage in business opportunities. However, some MFI's target a segment of the population that has no access to business because of lack of markets, inputs, and demand which make the productive credit of no use. Hence, to be more effective in productive credit for the targeted low-income clients, productive credit plus other provision of inputs (such as training, marketing, distribution etc) become very crucial. Many MFI never reach the minimal scale or the efficiency to cover costs; and others face non supportive policy frameworks and daunting physical, social, and economic challenges. The failure to manage their funds adequately to meet future cash needs confront microfinance institutions with liquidity issues. The poor financial management systems and lack of skilled manpower to run successful operations create risks for microfinance growth and development (Aghion and Morduch, 2004)

Ultimately, most of the dilemmas and problems encountered in microfinance have to do with how clear the organization is about its principal goals. Does the MFI provide microfinance to lighten the heavy burdens of poverty, encourage economic growth, or help poor women develop confidence and become empowered within their families? In development, an organization

can choose one or many goals, provided its constituents, governance structure, and funding are all in line with those goals, including the risks and challenges examined above (*ibid*).

#### **2.1.4. Objectives of MFIs**

In many nations, the low income population is not a beneficiary of the formal financial institutions (Banks). The banks consider the above non bankable. This gap was first recognized by Mohammed Yunus who cotted as the innovator of microfinance institutions that expanded throughout the world. For the last three decades microfinance institutions have been trying to fill this gap through different methodologies and interventions. Schreiner (2002), has put the goal of microfinance in a general manner, i.e., to improve the welfare of the poor. More clearly, Ledgerwood (1999) has explained the goal of MFI as developing organizations to serve the financial needs of those unbanked poor men and women. The development objectives of MFIs, accordingly, include one or more of the following.

- To reduce poverty through enabling the poor to get financial service and practice in micro enterprise business.
- To empower women or other disadvantaged population groups due to culture religion or other political and social factors.
- To create employment opportunities through helping those able but poor to engage in small and micro enterprise businesses.
- To help existing businesses grow or diversify their activities through provision of financial services and other additional supports.
- To encourage the development of new businesses through the availability of financial and entrepreneurial training given by MFIs.

More over, MFI in different countries have varied settings, but similar development objectives. In a study undertaken by World Bank (Webster, Riopelle, and Chidzero, cited in Ledgerwood; 2002), there are three objectives most frequently cited.

- To create employment and income opportunities through the creation and expansion of micro enterprises.

- To increase the productivity and incomes of vulnerable groups, especially women and the poor.
- To reduce rural families' dependence on drought prone crops through diversification of their income generating activities.

In addition to the above numerous impact based objectives, MFIs also have long-term goals. First, the outreach of the service; i.e. serving those who have been consistently underserved by financial institutions such as women, the poor, and indigenous and rural populations. The second is sustainability. This implies that micro-finance should have a goal to generate revenue to cover the costs of providing financial services. MFIs need to determine where there is unmet demand for their service and which target group matches with their objective. MFI's that target the poor have different objectives than MFI's that target the economically active poor. Further more, MFIs may also focus on a particular economic sector, including agriculture, trade, industry, or service; or level of business as a means of achieving their objectives. Some MFIs can also target the rural or the urban poor to achieve their objectives.

## **2.2. Products and services**

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

In addition to the financial products and services, some MFI provide enterprise development services, i.e., skill training and basic business training (like book keeping, marketing and production) or social services such as health

care, education, literacy training that enable the low income people to open micro enterprises either directly or indirectly. However, it does not mean that all MFI's provide all the services. Deciding which service to offer depends on the MFI's objective, the demand of the target market, existence of other service providers, and an accurate calculation of the costs and feasibility of delivering additional services (Ledger wood, 2002).

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

### **2.2.1. Financial Intermediation**

The primary role of MFIs is to provide financial intermediation that involves the transfer of financial accounts to those who have shortage and are unable to get access to services. Virtually all MFIs provide credit services and additional services such as savings, insurance, and payment services. The choice and method of providing such services depends on the objective of the MFI, the demand of targeted market, and the institutional framework. In general, the range of financial products commonly provided includes; credit, savings, insurance, and payment services.

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

occasions. However, many MFIs insist that only productive loans be made (Waterfield and Duval, 1996).

According to Ledgerwood, credit delivery method can generally be classified in two broad categories, i.e., individual versus group lending. Individual lending is a system of offering loans that are delivered to individuals based on their ability to provide the MFI with assurance of repayment and some level of security. MFIs can develop formal and/or informal lending models to individuals. Formal lending model based decisions are dependant on business and client characteristics, including cash flow, debt capacity, historical financial results, collateral and characters. Though the formal sector lenders have used personal guarantors to motivate clients to repay loans, MFIs have often not used such models because many micro business owners do not have adequate assets. Informal lending models approve loans based on a personal knowledge of the borrowers rather than a sophisticated feasibility analysis; and they use informal collateral sources. Individual lending requires frequent and close contact with individual clients. It is most often successful lending on urban areas where client access is possible. In both rural and urban areas, individual lending is often focused on financing production oriented business whose operators are generally better off than those in extreme poverty.

Group based lending makes loans to groups, i.e., either to individuals who are members of group and guarantee each other's loans or to groups that then sub loan to their members. The formation of the group is a collection of people who have a common wish to access financial services. Group lending approaches have the model of rotating savings and credit associations to provide additional flexibility in loan size and terms; and generally to allow borrowers to access funds when needed rather than having to wait for their turn. Several advantages of group based lending are cited frequently in micro-finance literature. Among the advantages are uses of peer pressure as a substitute for collateral, targeting the poor, reducing certain institution transaction costs etc. According to Bratton (1996), group based lending also has several disadvantages. If several members of group encounter repayment difficulties the

entire group often collapses, leading to a domino effect. Group training cost makes the institutional transaction cost high; and clients transaction cost is high since more responsibility is shifted from MFI to clients.

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

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

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

The requirement of compulsory savings and the mobilization of voluntary savings reflect two very different philosophies (CGAP 1997 cited in Lidgerwood, 2002). The former assures that the poor must be taught to save and that they need to learn financial discipline. The latter assumes that the working poor already save and what is required is institutions and services appropriate to their needs. MF clients may not feel comfortable putting voluntary savings in compulsory savings accounts or even in other accounts with the same MFI

because they can not withdraw the compulsory savings until their loan is repaid. They fear that they may also not have easy access to their voluntary savings. Consequently, MFI should always clearly separate compulsory and voluntary saving services.

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

**Payment services** - MFIs may offer payment services either with their saving services or separately for a fee. If payment services are bundled with savings services, the MFI can pay an artificially low interest rate on customer deposit accounts to cover the cost of those services. Otherwise, a fee is charged to cover these costs. Fees can be based on a percentage of the amount of the check or they can be a flat minimum fee with additional charges for first time clients. Moreover, because the MFI advances funds on checks that must subsequently be cleared through the banking system, it incurs interest expenses on the funds advanced and runs the risk that some cashed checks will be uncollectible due to insufficiency with at least one bank to clear the checks being cashed. In addition to check cashing and check writing privileges, payment services include the transfer and remittance of funds from one area to another. And few MFI, are currently offering transfer services for their costs.

### **2.2.2. Social Intermediation**

Social intermediation is the process of building the human and social capital required by sustainable financial intermediation for the poor. Successful financial intermediation is often accompanied by social intermediation. Social intermediation prepares marginalized groups or individuals to enter into solid

business relationships with MFIs. Financial intermediation depends on social capital, because it depends on trust between the borrower and the lender. Where neither the traditional system nor modern institutions provide a basis for trust, financial intermediation systems are difficult to establish. Social intermediation can thus be understood as the process of building the human and social capital required for sustainable financial intermediation with the poor.

MFIs that provide social intermediation services most often do so through groups, but some also work with individuals. Group social intermediation is defined as the effort to build the institutional capacity of groups and invest in the human resources of their members, so they can begin to function more on their own with less help from outside. This aspect of social intermediation responds to the growing awareness that some of the poor (especially those in remote, sparsely populated areas or where levels of social capital are low) are not ready for sustainable financial intermediation without first receiving some capacity building assistance.

Social intermediation can help in capacity building. Some MFIs simply focus on developing group cohesiveness, and others seek to develop a parallel financial system where by the group actually takes over the financial intermediation. This often happens with the group first managing its own internal saving funds and then later taking on the lending to risk and bank duties associated with lending external funds. Training group members in participatory management, accounting, and basic financial record keeping system is social intermediations in this aspect. Groups' cohesiveness and self management by reducing default through peer pressure enables to lower the costs of financial intermediation (Benaett, Hunte, and Goldbeng, cited in Ledgerwood, 2002).

However, not all social intermediation results in the formation of groups or are always provided by the same institution that provides the financial intermediation. In West Africa, NGOs or other local organizations visit remote villages where access to financial services is limited to develop awareness among individual open accounts and managing their funds, and generally increase their intermediation services for individuals can be provided by the MFI

itself or by other organization attempting to link low-income clients with the formal financial sector (Lidgerwood, 2002).

### **2.2.3. Social Services**

Social services that focus on improving the wellbeing of micro entrepreneurs include health, nutrition, education, and literacy services. While social services are often provided by the state, a local NGO, or a community organization, some MFIs have chosen to provide social services in addition to financial intermediation. In this way, they are able to take advantage of contact with clients during loan disbursement and repayment. The delivery and management of social service should be kept as distinct as possible from financial intermediation services; i.e., they must clearly identified as separate from credit and saving services. The cost of delivering social services requires ongoing subsidies because revenue generated from financial intermediation cannot cover all the costs. MFIs that choose to provide social services must be clear about the costs incurred and must ensure that the donor supporting the MFI understand the implications of providing these services.

## **2.3. Managing of micro finance**

Good contract and pricing policy in microfinance is a necessary condition for success though it is not a sufficient one. Group lending especially is a contract design cited by economists to explain the success for micro finance. However, a great deal of what distinguishes failed micro finance from successful micro finance ultimately has to do with management; particularly with how staff members are motivated and equipped to do their jobs. The effective financial management for MFI requires an understanding of how various operational issues affect financial performance. To provide financial services to clients, survival and sustainability of MFIs is a necessary factor. Thus, MFIs should manage their operations, productivity, and cost to become successful in the market. Productivity and efficiency that both maximize revenue and minimize cost relative to the business produced and managed are important to manage micro finance effectively.

**2.3.1. Productivity:** - productivity management includes ensuring staff is accountable for its activities, given the right incentives for productive and efficient performance, and provided with timely and useful management information. Productivity is affected by the choice of leading model and delivery mechanisms as well as by the target client group. These variables affect both the volume of loans outstanding and the number of clients per credit officer. Since the main responsibility for effective outreach and loan repayment rests with the credit officer, it is necessary to ensure that the credit officers are both motivated and held appropriately accountable for managing and cultivating their Portfolios. The volume of loans outstanding is very much a function of the target group chosen and the lending methodology. Productivity can be improved by larger portfolios achieved through larger loan sizes or by larger number of clients per credit officer (Ledgerwood, 2002).

Larger loan size that results in a greater amount of delinquent loans or an exclusion of the greater client group may increase productivity but would not improve overall financial viability or achieve the stated mission of the MFI, thus larger loan sizes must be balanced against the demands of the target group and its ability to absorb and manage a greater amount of debt. Though MFI's efficiency and productivity can be improved by increasing the number of clients per credit officer; each MFI has an optimal number of clients per credit officer based on credit methodology and average loan terms. Credit officers of MFIs that utilize group lending models with relatively long terms can usually carry larger number of clients than credit officers of MFIs who make individual loans with shorter loan terms. This is because credit officers need to spend less time with clients if the loan terms are longer, and group lending can transfer some the administrative tasks to the group, thereby reducing overall cost. The credit officer's ability to provide an adequate level of services to clients and to maintain the quality of the loan portfolio are factors that should be balanced with the increasing number of clients per credit officer ( Rhyne and Rotblatt, 1994).

While most people working in micro finance are motivated by the benefits of working with low-income clients and the ability to "make a difference",

the bottom line for many employees is also recognition and monetary compensation. A well designed incentive scheme rewards staff behavior that benefits MFI, and punishes behavior that results in increased risk or losses for the MFI. The multi task nature of micro finance, in which institutions seek both profit and social impact, can result tensions in designing optimal incentive schemes. An important constraint arises when all inputs and outputs (out comes) are not observed. Rewarding observable actions like the number of customers served or on time collection rates can skew staff away from other important goals, like empowerment or reaching the particularly needy. Generated through promises of promotions, training, and interesting assignments in return for steady performance, all can be termed as low-powered incentives can dominate high powered incentives that closely link salaries to observable performance indicators (Aghion and Marduch, 2004).

On the other hand, using high powered incentives can result in tension, i.e., it can undermine institutional culture by creating the sense that loan officers are out for themselves as individuals rather than working for the greater good. Overly high powered incentives may also inadvertently increase short sighted behavior by staff members, encourage fraud, and diminishing accurate reward keeping. The theory of contracts and incentives suggests alternative solutions like yardstick competition and the institution of internal controls. Therefore, it is imperative that management should understand what type of behavior to lead to which results, so that it can design the incentive scheme in such away that the MFI's productivity and profitability will increase. Incentive schemes can include monetary rewards, promotions, additional holidays, recognition in the form of ceremonies or certificates, additional training, increased bonus, etc. Incentive schemes for lending should feature quality as well as volume measurements, and it is also important to bear in mind the effect that different incentive schemes will have on clients and their needs (*Ibid*).

Useful and timely management information is one of the most important elements of effective delinquency management. Management information system is a key factor in increasing productivity and effectiveness of MFIs service

delivery. Credit officers need information about their client on a daily basis to ensure that loan repayment is taking place. The lending methodology (group and individual lending method) without collateral needs more information about clients than other financial institutions. For credit officers to achieve their goals and benefit from an incentive structure that rewards the quality of their loan portfolios, they must be aware as soon as possible of any delinquent loans. Effective management of delinquency requires immediate follow up. If possible, credit officers should receive daily or weekly reports of their clients' activity (Johnson and Rogaly, 1997).

**2.3.2. Efficiency management:** - efficiency management focuses on managing and reducing costs where possible; and it also refers to managing costs per unit of output. MFIs incur four types of costs; financing costs, provision for loan losses operational or administrative costs, and adjusted costs of capital. Financing costs and adjusted capital costs are to a great extent a function of the marketplace in which the MFI operate. Efficiency indicators measure MFI's operational costs relative to its assets, and this discussion focuses on managing these operational costs. As MFI matures and reaches a certain optimum economy of scale it improves its operating efficiency. Since it is difficult to compare efficiency indicators of new MFI with the old MFI, their operating costs will be higher for the internal management of operating efficiency, MFIs can focus on aspects of total salary costs, decentralized decision making, standardization of systems and policies, and management of information systems ( Robinson, 2002) .

Christen and other, cited in Robinson (2002), identified that salary costs ranged from 48% to 75% as a percentage of administrative expenses in 11 MFIs. The quality of staff hired and the general level of salaries in the country in which the MFI operates can be factors that affect salary costs. The decision about whether to hire highly adequate staff is related to the objectives of the MFI and the specific tasks required of the credit officers. Salaries can be based to a great extent on monetary incentive schemes, there by ensuring that average salaries are related to the revenue generated on the loan portfolio. Most

successful MFIs have a fairly decentralized operational structure. Decentralized loan approval process reduces operating costs, decreases waiting time for clients, and enhances the accountability of the credit officer. Decentralizing the decision making authority to manage productivity and efficiency to branches, and treating them as profit centers than simply administrator units, results in over all improved efficiency for the MFI (*ibid*).

Highly Standardized systems and polices in MFIs contribute to overall efficiency. The functions of each staff member must be clearly defined and daily and weekly schedules of activities should made routine in all branches. A high level of standardization is essential for MFIs to monitor performance, expand out reach, and achieve operational efficiency. Regular procedures also enable clients to arrange their schedules around polices of the MFI. Standard producers also can benefit MFI that is growing rapidly or help when staff is transferred to different branches. Core activities such as credit and savings should be highly standardized whereas client visits, involvement in the Community and other initiatives may be less so. Further more, effective management information system is also essential for MFI to control its costs and manage efficiency. Timely and accurate information must be available to management to manage productivity at the branch or out level and at the over all MFI level. The importance of information should be understood by managers to build on good administrative systems and procedures (Aghion and Murdoch, 2002).

## **2.4. What is poverty?**

**2.4.1. Concept and definition of poverty:** - poverty has been conceptualized in terms of income, i.e. it is defined as living below a given level of income (mainly US\$ 1 per day). However, nowadays different writers define poverty using different approaches and terms. Some of them define it in general terms, and others narrow its scope.

Rajasekhar, 2004; "poverty is a multidimensional phenomenon that encompasses not simply low income, but also lack of assets, skills, resources, opportunities, service, and the power to influence decisions that affect an individual's life."

“Poverty frequently overlaps with and reinforces other types of social exclusion, such as those based on race, gender or ethnicity” World Bank, 2004. This more comprehensive understanding of poverty also better captures how the poor define their situation themselves.

As we can understand from the above definitions, poverty doesn't have a standardized universal definition in literature. It is possible to say that poverty is a multi dimensional aspect. It involves income, asset, skill, freedom, resource, social exclusion, gender, race, ethnicity, etc. This complexity and multi dimensional nature makes it a challenge to measure its extent and to put its panacea. In most literatures, for the sake of simplicity, poverty is defined and measured based on income. The threshold used to classify the poor is US\$ 1 per day, i.e. people who get income below US\$ 1 are labeled absolutely poor. Based on this classification, World Bank reports indicate that 1.2 billion people were living in extreme poverty in 2003 (Maes, 2006). Most of less developed nations are characterized as having more than half of their population living in poverty. This is the grounds on which many practitioners, writers, donors, politicians, and economists are dealing with poverty and its panacea. Microfinance is one, if not the only, important tool in the poverty eradication.

#### **2.4.2. Role of Microfinance in serving the poorest people**

Poor men and women that are excluded from formal financial services can be addressed through small loans and savings provided by microfinance institutions. Access to credit and deposit services is a way to provide the poor with opportunities to take an active role in their respective economies through entrepreneurship, building income, bargaining power and social empowerment among poor women and men. Although most microfinance institutions aim to reach people, it has become increasingly apparent that they rarely serve the poor. Most microfinance institutions reach the upper-poor in much greater numbers than the very poor. The extent to which microfinance programs are able to reach the poorest of the poor remains an open debate. Certain practitioners argue that it is important to have permanent operations based on

wider geographical outreach, which qualify financial products by competitive, efficient microfinance institutions (Rajaskher, 2004)

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

#### **2.4.3. Challenges in serving the poorest**

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

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

**Economic Barriers:** Many microfinance programs use group lending methodology clients to attend a weekly or monthly meeting to access credit. The cost of transportation to these meetings, together with the opportunity cost of

attendance can present a barrier for the very poor to participate microfinance programs. Alternatively, many individual lending or saving programs require clients to save a certain amount before they can access loans, a practice that often prevents participation by the poorest populations.

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

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

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

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

## **2.5. Micro finance and gender empowerment**

The recent shift in terms from micro credit to micro finance reflects the acknowledgment that saving services may help to improve will being of the poor in general and women in particular. Not all microfinance institutions focus specifically on women, but a recent study found women make up 80% of the clients (Pritimody, cited in Schreiner 2001). Formal sector commercial banks tend to favor men, mainly because men run the larger business that commercial banks favor, and men tend to control the assets that banks seek as collateral. It is small businesses which most often involve self employment in the informal

sector, and women make up large and growing segment of informal sector business. On the demand side, women tend to be more credit constrained than men and, therefore, more likely to self select themselves into micro credit contracts, i.e., small loans, training sessions, weekly meetings, and joint responsibility (Vonderlack and Schreiner, 2001)

From the viewpoint of microfinance, institutions serving women have at least three potential advantages. The first advantage is purely financial; women are often more conservative in their investment strategies and are often more easily swayed by peer pressure and the interventions of loan offices, making women more reliable bets for banks warned about repayment rates. The second advantage pertains to institutions purchasing social objectives, i.e. aiming resources to women may deliver stronger development impacts. One reason is that women tend to be more concerned about children's health and education than males. The third advantage is that women are overrepresented among the poorest of the poor, and are too often oppressed by their husbands and by prevailing social norms. Ethical considerations aside, the gender bias has clear implications for policy. Unequal access to health, nutrition, and educational status of women in poor households has been linked to high fertility rates, low labor force participation, low hygiene standards, and the increased incidence of infectious diseases. All these variables are clearly related to productivity and household income (*ibid*).

**2.5.1. Are women better customers?** There are at least three reasons why lending to women may have advantages for the bank and may be efficiency enhancing in a broader economic sense. The first has to do with poverty, the second with labors mobility, and the third with risk. Women are poorer than men. According to the UNDP Human Development Report (1996), 70% of the world's poor, about 900 million, are women (HDP, 1996). The second argument hinges on labor mobility. Women tend to be less mobile than men and are more likely to work in or near the home. Bank managers can therefore monitor women at a lower cost. Moreover, less mobility facilitates delegated monitoring under group leading methodologies. Typically, peer borrowers who undertake investigation

activities at home, and stay at home most of the time, can more easily monitor each other. Lower mobility reduces the incidence of strategic difficulty under the fear of social sanctions. This brings us to the third argument in favor of a pro women bias. Because women are less mobile and more fearful about social sanctions, they are generally more risk averse than men and more conservative in their choice of investment projects. This makes it easier to secure debt repayments and create a reputation for reliability (Aghion and Morduch, 2004)

**2.5.2. Gender empowerment:** - Advocates argue that microfinance can increase women's bargaining power within the household. Women will become empowered and enjoy greater control over household decisions and resources. To the extent that group lending in microfinance entails peer monitoring by other borrowers in the same group, microfinance is likely to provide protections to women within their households. In particular, violent acts and abuses by men against women can now be subject to third party scrutiny as peer borrowers will want to find out why some woman in their group have stopped attending repayment meetings. Another way in which microfinance can affect women's empowerment is with regards to the use of contraceptives. One study on rural Bangladesh shows that the willingness of microfinance projects (Chowdhury, cited in Morduch, 2004), and positive impacts have been found on contraceptive use. This can be explained by the fact that microfinance increases the opportunity cost of women's home. This effect may be reinforced by peer pressure as women are urged to reduce family size in order to increase education and health expenditure and to better manage the ability to repay (*Ibid*).

## **2.6. Types of financial institutions**

"An institution is a collection of assets, human, financial and others combined to form activities such as granting loans and taking deposits over time." (Schmidt cited in Ledgerwood, 2002). The degree to which they have a well defined function and set up, performing a function on a permanent basis made for financials intermediation as real institutions. A one time activity such as project is not however an institution. A good institution has three activities; one is providing services to the relevant target group, i.e., the offering of loans that

match client demand; the loan size and maturity, collateral requirement, and the procedures applied in granting loans and ensuring repayment. The scope of services must be consistent with the situations of the clientele. In addition, low transaction costs for clients, a high degree of deposit liquidity, and rapid availability of loans are extremely important features for a target group oriented institution to provide. Secondly, its activities and offered services are not only demanded but also have some identifiable positive impacts on the lives of the customers. Third, it should be strong, financially sound, and stable. There are three types of financial institutions.

### **2.6.1. Formal financial institutions**

“Formal financial institutions are defined as those that are subject not only to general laws and regulations but also to specific banking regulations and supervision” (Ledgerwood, 2002). The most typical types of formal financial institutions are; public development banks, private development banks, saving and postal saving banks, commercial banks, Non bank financial institutions.

Public development banks until quite recently have been a special type of large, centralized, government owned banks. Most of them are set up with ample financial support from foreign and international organizations. They are created to provide financial services to strategic sectors such as agriculture or industry. Most are the products of traditional interventionist approaches, which place greater emphasis on disbursements at low subsidized interest rates than on the quality of lending; and their traditional clients are large businesses.

Private development banks - these private development banks are a special category of banks that exist in some developing nations. Their aim is broad economic development directed to fill capital gaps in the productive sector that are considered too risk by commercial standards. They often have lower capital requirements than commercial banks and enjoy some exemptions, either in the form of tax breaks or reduced reserve requirements.

Commercial banks - are formal financial institutions that focus on short and long terms lending to established businesses. A typical commercial bank has little experience in providing financial services to micro entrepreneurs and small

farmers; however, some commercial banks recently recognized that it might be beneficial to do business with these clients.

Non bank financial institution - In some countries special regulation has been established for non bank financial institutions. These institutions are set up to circumvent the inability of some MFIs to meet commercial bank standards and requirements due to the nature of their lending. Finance companies or financiers are non bank financial intermediaries that channel equity funds, retained earnings and other borrowed capital to small, unsecured short term loans. Finance companies are often associated with consumer credit and installment contracts, and their activities vary by their charters (Ledgerwood, 2002).

### **2.6.2. Semiformal financial institutions**

Semiformal financial institutions are those that are formal in the sense of being registered entities subject to all relevant general law, including commercial law, but informal in so far as they are, with few exceptions, not under bank regulation and supervision. Credit unions, saving and loan cooperatives, and financial NGOs are among the most common semiformal financial institutions. Such institutions mostly play a significant role in the provision of financial services to poor target groups. Financial cooperatives provide savings and credit services to individual members. "They perform an active financial intermediation function, particularly mediating flows from urban and semi urban to rural areas, and between net savers and net borrowers, while ensuring that loan resources remain in the communities from which the savings were mobilized" (Magill 1994, cited in Wright 200). Financial cooperative are organized and operated according to basic cooperatives principles; there are no external share holders; the members are the owners of the institution, with each member having the right to vote in the organization (Wright, 2000).

Financial NGOs should be distinguished from two other types of non governmental and not for profit institutions. Financial NGOs are set up and managed not by members of the target group, but by outsiders, who are often men and women from the middle class of the nation who want to support poorer people for social, ethical, and political reasons. In spite of the fact that they are

not member based, many NGOs are close to the target group, in terms of both location and understanding. NGOs set up by local business people to provide services to micro entrepreneurs may indeed be better placed to respond to the needs of their clients than an institution managed by government officials or traditional banks (*Ibid*).

### **2.6.3. Informal financial providers**

In recent years research into informal financial services and systems has significantly depended on understanding of the way they operate and their strength and weaknesses. Informal providers are those to which neither special bank law nor general commercial law applies; and whose operations are also so informal that disputes arising from contact with them often can not be settled by recourse to the legal system. These informal providers charge higher interest rate that could be explained in terms of transaction costs, i.e., lack of information and high risk. Informal financial services may be well equipped because of local insider knowledge, and lower overheads to respond to the requirements of poor people, they may also be explosive. Systems which facilitate financial transactions and are owned by their users are many and varied, and range from simple reciprocal arrangements between neighbors, savings clubs and rotating savings and credit associations, to forms of insurance building societies, and systems of cooperative business finance (Johnson and Rogaly, 1997).

For obvious reasons, informal finance comes in many forms. Some agents in informal financial markets have at least some characteristics of a financial institution. This applies to money lenders and money collectors, and to rotating savings and credit associations that exist and operate in many variants and under many different names in all most every country of the developing world. Self help groups (SHG) are also a type of informal financial institution. There are many self help groups, consisting of self employed women who informally support the economic activities of their members by providing mutual guarantees that facilitate their members' access to bank loans, by borrowing and lending among themselves, or by encouraging each other to save regularly (Ledgerwood, 2002).

## **2.7. Experience of some African nations in MF**

Today many of the less developed countries try to encompass the program of microfinance in their strategies of development. Therefore, it becomes important to deal with the experience of some countries regarding micro finance institutions.....

### **2.7.1. Reaching and transforming the poorest of the poor through micro financing project in Nigeria (*Duro Oniemola; 2002*).**

In Nigeria, MFIs are an age long framework through which entrepreneurial poor mobilize savings and provide credit to their members. This system is a common tool especially among farmers, artisans, and women groups that engage in production of value and marketing of goods, and both in rural and urban areas. There are about five categories of poor people in Nigeria; entrepreneurial poor, workers (wage and salary earners), self help group, casual laborer, and the destitute. The entrepreneurial poor, self help poor and workers have an opportunity to use MFIs to secure capital for their projects, for job creation, and income generation. The casual labor poor, who lack material tools with which to produce values for themselves, and the destitute (almost to an absolute point, opportunity to secure the means to survival level) could not afford even to join hands with MFI projects. Therefore, in relation the structure of wealth distribution, material and political power, and exclusion to these; Nigeria can be sharply divided between the poor and poorer (23%), and the Poorest Society (77%).

In Nigeria, MFIs takes a strong tool in the hand of the poorest of the poor, and with which they can exploit the greater opportunity to transform social conditions to sustainable livelihood. Micro business enterprises are informally organized by the poor whose primary sources of capital are personal savings, family sources, friends etc. The increasing exclusion of the poorest groups from the benefits of the formal commercial banking system increased the demand for MFIs, which have the seed capital of micro enterprises. Coupled with the failure of macro economic policies, especially policy of government towards small scale

businesses has forced the federal government of Nigeria to stimulate growth of this sector by promoting formal MFIs and encourage collaborator with community based organization for financing small enterprises. By doing this, the government believed that the developed groups in society should be main streamed in to the national development process. It is noted that MFIs assume that the poor are economic agents of change and that they are willing to pay for services tailored to their needs and not as perpetual recipients of clients. Thus, in Nigeria MFIs are perceived as a means not only to provide capital for small enterprise but also as a means to free small holders from the clutches of poverty and social exclusion.

There are 5 major types of MFIs in Nigeria; Government MFI, Missionary MFI, Government and Civil society jointly owned MFI, Non governmental organizations MFI, Civil society or traditional and private money lenders. Oniemola has tried to analyze the strengths, weaknesses, opportunities, and threats to MFIs (SWOT analysis) found in Nigeria. And as a result, he finds out some constraints and prospects of MFIs. Insatiable demand, dependency on government and donors, lack of sustainability, political control, unclear rules and regulations, gender discrimination, unskilled management technique, high cost, poor infrastructure, inadequate loan portfolio, unstable interest rates, and poor information are some of the threats. Strong financial sources for micro business, high level of willingness to save, very high demand for MFIs, enhanced community development, social change in social habit, empowerment of the grass roots poor, increased employment etc are also some of the prospects found in the county.

### **2.7.2. Group lending in Malawi (*K.P. Pandmanbhan, 1996*).**

In Malawi, group lending was introduced in 1973 under the Lilongwe Land Development Program (LLDP), primarily to reduce lending costs. Each credit group consisted of 10-30 members and had a chairman, a treasure, and a secretary who performed the demonstrative function. In view of the prestige associated with these positions most of them worked in an honorary capacity. Ten percent of the loans were credited to a security fund, to cover the risk of

defaults by individual members of the group. Group formation and disbanding was simple and non-bureaucratic. This flexibility enabled groups to get rid of chronically defaulting members. Short-term loans to members for seed and fertilizer were issued in kind through the government agency responsible for their supplies. Interest on group loans was 10%, as against 15% on individual loans. By 1979 over 1200 credit groups were functioning in the LLDP's project area serving about 28,400 farmers. This constitutes nearly 50% of LLDP's loan portfolio. Loans disbursed to groups had increased from MK 21,000 during 1973/74 to MK 805,000 by 1978/79 (MK, kwacha currency of Malawi). Over all, these credit groups increased the access of small farmers to credit, reduced transaction costs, and improved crop production. Although there was not much difference between repayment records of groups and individuals, at around 100%, the efforts needed for collection in the case of the latter were much higher. The following factors contributed to the success of the project.

- ❖ Group credit in Malawi was preceded by group input supply. Earlier, the state trading monopoly had encouraged formation of groups, by offering discount on bulk purchase of fertilizer.
- ❖ Groups were formed along traditional kinship and communal line which ensured loyalty and discipline.
- ❖ A relatively equitable distribution of land holdings (around 1.5 hector) and a socio-cultural pattern congenial for group cohesiveness. Groups were in fact formed at the initiative of the farmers with minimum government interference.
- ❖ The agricultural development strategy in Malawi emphasized the need for extension and other support services as a pre-condition for credit expansion.

- ❖ The interest concession of 5% for group loans when compared with individual loans acted as an incentive for group formation.
- ❖ Groups were simple operation and membership was flexible. The project administration gave specialized drawing in self-accounting to the groups.
- ❖ The services of the managers and other office bearers were particularly free.

## Chapter three

# Historical review of micro finance industry in Ethiopia

### 3.1. Historical development and growth of the financial sector

Investment is a necessary prerequisite for growth. The role of finance is explained as part of growth, since it advocates the transfer of assets from unproductive to the productive Ones. The emergence of modern financial services, hence, is a vital factor in facilitating growth and development of a nation's economy. Modern financial service in Ethiopia has a long history. It dates back to the beginning of the 20<sup>th</sup> century. Modern banking started during Emperor Menilke 2<sup>nd</sup> who is mostly cited as the introducer of banking and the modern banking system. He also introduced ministerial structure; and the first currency was minted during his reign in 1893 (Richard Pankhrust cited in Hailu, 2006). Backed by those hospitable developments, modern financial services and institutions establishment started to flourish in Ethiopia. Hailu Gashow, (2006) has explained the historical financial development in Ethiopia using four distinct stages; the era of introduction, the take-off stage, period of stagnation, and the period of revitalization as follows:

**3.1.1. The era of introduction:** - In 1905, Bank of Abyssinia was first established in Addis Ababa. After the establishment of this bank, different banks like development banks and private banks emerged. As a result up to 1925, one development bank, and three private banks (mostly owned by foreigners) had set up. 1922 was also a period that the first insurance company was established in Ethiopia. However, the invasion of Italy interrupted the progress of the banking industry and only Italian banks were under operation until the end of the invasion 1941. After liberation, the Ethiopian government took some activities to reorganize the financial sector of the country. As a result, in 1943 combining the

central and commercial banking function, the State Bank of Ethiopia was established. Following the establishment of this bank, other banks such as Agricultural Bank of Ethiopia and the Investment Bank were established. Between 1943 and 1963, all banking institutions were owned by the government and as a result there was no financial competition within the market. All banking activities were dominated by the State Bank of Ethiopia.

**3.1.2. The take-off stage:** – In the development of financial sector in Ethiopia, a new banking law (proclamation No. 207/1963) that separates the function of the Central Bank and Commercial Bank, cited as the entrance of new era from its era of introduction. This is because the proclamation resulted in the establishment of commercial banks, the commercial code of Ethiopia, and opened the banking business for both foreign and local investors to operate in the country on joint venture basis. Subsequent to the banking reform laws of 1963, competition and diversification of financial products emerged in banks and insurance companies too. There were about 13 insurance companies until the military government come to power. The existence of a stock exchange market, in which foreign investors were the major players, operating under the National Bank was another feature of Ethiopia financial sector during its take off period ( before 1974).

**3.1.3. The period of stagnation:** - Transformation from “free market economy” to Socialism during the military era results a nationalization of all establishments including the financial institutions where state monopoly and ownership precede over private ownership. Therefore, Commercial Bank of Ethiopia had been dominating the financial market after it amalgamated all the three private banks, within over 155 branches in the nation. The National Bank had the authority to approve loans of the Commercial Banks, in which their objective was rendering commercial banking services targeting especially at public enterprises and cooperatives with denying appropriate attention for the private sector. The Agricultural and Industrial Developments Bank, and Housing and Saving Bank were reestablished to serve co-operatives, state forms, state enterprises at highly subsidized lower interest rate. The same was happen to the

insurance companies; all 13 insurance companies were nationalized and consolidated in to the Ethiopian Insurance Corporation. This period (1974 -91) with its socialism ideology results a restrictive and distorted financial sector; the public enterprises were not efficient and wastage of resources was common in the state owned enterprises. This period was characters as stagnation period of the financial sector and economic growth.

**3.1.4. The period of revitalization:** - New “market based economic system” declared by EPRDF (During1991) that changed the way from socialism result a “liberalization” and restructuring of the financial sector like the other sectors. The financial reform measures among others have the aim of promoting a competitive environment and efficient banking services. The financial sector has “liberalized” through the investment proclamation No. 37/1996 that reopened banking and insurance for private ownership, the monitoring and banking proclamation No.83/1994 that reinstated the institutional autonomy of the National Bank and the rest of the financial businesses and state owned banks’ activities. The policy measures taken so far can be taken as a transfer of the Ethiopian financial sector from its stagnation stage. “Managerial autonomy” is restored to state owned financial institutions and commercial considerations are set as the guiding principle in business dealings. Interest rate is gradually liberalized while maintaining positive real interest rates. Currently, only minimum deposited interest rate is set at 3% leaving the rest to be determined by the banks and MFIs. However, though it is good improvement from the socialist ideology, further liberalization in the financial sector is still needs a new reform agenda of the government.

## **3.2. Financial service providers in Ethiopian**

In Ethiopia the majority of the population is poor; lack of financial and effective financial providers that can be accessible easily is common. A gap in financial service providers is among the main obstacles facing business men who run or wish pursue business on part time or full time basis. Access to institutional as well as non institutional financial services is questionable for the majority of households living in developing nations, i.e., the different sources that

individuals, enterprises, companies etc can get the service facility are extremely limited. In Ethiopia, like other less developed countries, the same problem exists. Within the country; the sources of financial services (financial service providers) can be classified generally into three: formal, semiformal, and informal financial service providers.

**3.2.1. Formal financial institutions:** - These are financial institutions that are subject to the general laws and regulations as well as to the specific commercial (financial) regulations and supervisions of the nation. The formal financial sector in Ethiopia includes banks and insurances (non bank) financial institutions. As it is indicated in the above, they are regulated and controlled by the National Bank of Ethiopia. The main formal financial institutions in the country are the National Bank of Ethiopia (NBE), commercial and specialized banks, insurance companies, pension and social security funds, saving and credit cooperatives, and micro finance institutions (Solomon Damte, 1996). The NBE, which regulates the financial institutions, is the central bank and it is not directly engage in basic business of finance. Institutions like commercial and specialized banks, MFIs and cooperatives are active players in the financial market. Pension and social security fund to the limited extent used to participate in government bond purchases and deposit transactions. The insurance companies also mainly deal with insurance transactions. According to study made by Lakwe Lema, amount of gross financial assets in 1998 was 28,177 birr million for commercial and specialized banks, 887 million birr for insurance companies, 207.9 million birr for saving and credit cooperatives, and 239 million birr for MFIs ( Lakwe cited in Hailu, 2006).

In Ethiopia financial services provided by the traditional formal financial services (Banks) to the poor are extremely limited and inadequate. This becomes very serious when it explained the reach of this traditional formal institutions in rural areas, i.e., almost all banks and insurance company branches are located in urban areas. Among the main factors, high transaction costs of administration, lack of acceptable collateral for banks, inadequate infrastructure are cited that hinder formal financial institutions from penetrating the rural areas and urban

poor. However, the importance of rural sector and urban poor coupled with the reluctance of the traditional formal financial institutions to open the market for MFIs to operate and to fill the gap existed. As a result up to December 2004 there were 23 MFIs operating within the nation (Tesfay Anebo, 2006).

**3.2.2. Semi-formal financial institutions:-** Semiformal financial institutions are those institutions found in-between the formal and informal financial institutions, i.e., they are formal in the sense that being registered entities subject to all relevant general laws, but informal since they are not under bank regulations and supervision. In Ethiopia these institutions have a recent history, which includes Saving and Credit Association (SCA) and the NGO credit schemes. The contribution of SCA and NGOs credit Schemes is more important in alleviating the drought and famine that repeatedly afflicts the rural people by providing financial facility and enabling them to participate in a diversified economic activities, and thereby develop a risk taking behavior to resist some natural hazards. The NGOs include saving and credit service aimed at creating employment and income generating activities. Moreover, the structure and network of the SCA and NGOs is relatively targeting to the rural areas. As a result, most of their branch offices found in districts and other remote areas with relatively less bureaucratic nature and group collateral requirement than formal financial institutions. Thus, they play their role in the development activities by reaching the rural and urban poor though they are faced with some difficulties (Wolday Amha, 2002).

**3.2.3. Informal financial providers:** - are those to which neither special financial law nor general law and regulation apply, and whose operations are also informal; disagreements that arise from contact with them often can not be settled by recourse to the legal system. Compared with the formal financial institutions, informal lending is by far the most important source of finance to the rural and urban poor population. These informal providers operate their service through their derived rules and regulations from the country's culture and customs. In Ethiopia, despite their exploitive terms and conditions, the informal financial systems are the most accessed source of credit in both rural and urban

communities. The prominent actors in this informal financial service delivery are traditional money lenders, 'Iquib', mutual self help schemes like 'Mahber', 'Idir' friends and relatives. The transactions are conducted on the basis of trust and intimate knowledge of customers. The common cultural background, natural obligations, fervent bonds of family and kinship, etc operate to promote trust, accountability and moral responsibility that is lacking in the official banking system. Rarely some informal financial providers require collateral for loans, and the system is almost totally free from central bank regulations and government control. Never the less, the informal sector despite its flexibility, rapidity and transparency of procedure, is not without limitations. The interest rates charged on these loans are often exploitive, and a scarcity of loanable fund for investment is additional limitation (Hailu, 2006).

### **3.3. Micro finance development in Ethiopia**

The delivery of financial services to the poor has a short history in Ethiopia; it is rather a recent development. Micro credit programs were introduced as components of NGO operations in the 1980s. Since then the government of Ethiopia has taken encouraging steps in stabilizing and liberalizing the economy, even if it is not purely liberalized yet. The decision of the government of Ethiopia to restructure the financial sector in the 1990s had significant impact on the growth and commercialization of both commercial banks and MFIs. In 1994 the government of Ethiopia opened the commercial banking sector, and in 1996 under the proclamation No 40/1996 Microfinance institutions were created to serve people with no access to the traditional formal financial institutions. One successful out come of these initiations is the liberalization of the financial sector, and thus among other things, the creation of legal framework allowing for the emergence, establishment and operation of micro finance institutions to serve poor Ethiopian households. Following the proclamation several credit programs that were operated by NGOs or government departments transformed into licensed MFIs. As of December 2004, there were 32 financial institutions in operation, including three government owned banks,

private bank and 23 MFIs, all regulated by the National Bank of Ethiopia ( Tesfay Anebo, 2006).

In Ethiopia, MFIs have shown a promising growth and development since their recent history of establishment. Though due to the government's strategy to develop the rural sector have inclined most MFIs to serve rural areas, recently there are operational shifts towards urban areas. Indeed the majority of Ethiopian MFIs (especially that government owned) see poverty reduction as their main institutional goal and reaching the poorest as a key approach. Still, MFIs have recognized the need to minimize risk by diversifying their portfolios and there is growing interest in serving urban markets and in particular Small and Medium Enterprises (SMEs). MFIs have a combined outreach of over 1 million loan clients accessing both credit and saving products and manage a loan portfolio of birr 996 million birr and savings of birr 431 million. These institutions have continued showing a tremendous growth in client outreach expansion since their establishment, seeing their loan client and loan portfolio increase by 33% and 68% respectively in one year alone ( from 2003-2004). While outreach of micro finance has expanded rapidly in the last years, it is uneven and in some regions low income households have no access to basic credit and savings services (*ibid*).

**Table 4.** MFIs out reach as of December31, 2006.

No	Name of MFI	No. of active client	Loan out standing	Client savings	Total asset	Total liability	Total capital
1	ACSI	515,686	687,389,000	365,778,000	842,352,000	616,118,000	226,234,000
2	AdCSI	83,000	142,444,000	43,677,000	222,848,000	74,901,000	147,947,000
3	Aggar	2,115	3,354,992	1,547,316	5,629,631	2,397,301	3,232,330
4	Asser	1,338	425,638	254,935	748,280	286,347	461,933
5	AVFS	7,739	7,733,422	1,994,003	12,107,094	7,388,699	4,718,395
6	Benshangul		19,795,821	6,027,290	25,759,260	7,906,298	17,852,962
7	BussaGonofa	18,217	10,147,669	2,415,784	14,880,978	4,965,080	9,915,898
8	DECSI	392,693	749,491,631	201,042,607	1,039,642,963	820,777,095	218,865,867
9	Dire	2,296	4,809,542	1,215,760	15,652,832	4,966,024	10,686,809
10	Digaf	551	504,260	435,710	626,550	445,365	181,190
11	Eshet	23,734	24,701,387	2,889,274	31,107,794	21,311,807	9,795,987
12	Gasha	10,337	13,216,397	5,126,180	17,632,616	13,190,691	4,441,924
13	Ghion	169	309,818	305,294	482,383	320,208	162,175
14	Harbu	3,457	2,982,456	1,475,377	4,061,476	2,668,811	1,392,666
15	Letta	309	511,085	47,527	756,415	47,690	708,725
16	Meket	7,426	10,262,990	4,643,627	14,445,872	10,908,362	3,537,510
17	Meklit	19,285	27,207,938	6,030,026	29,192,747	21,338,090	7,854,657
18	Metemamen	7,002	3,544,810	146,640	5,071,000	167,270	4,903,730
19	OCSSCO	181,403	232,431,896	8,308,476	274,861,728	152,013,770	122,847,958
20	Omo	106,460	114,238,271	51,242,081	144,037,906	126,941,637	17,096,269
21	PEACE	20,546	27,207,938	6,030,026	29,192,747	21,338,090	7,854,657
22	SFPI	19,169	20,378,965	7,333,362	23,185,571	11,820,706	11,364,865
23	Shashimene	1,917	2,314,864	527,228	3,735,727	636,038	3,099,689
24	Sidama	26,567	17,932,215	4,852,850	25,208,115	12,610,624	12,597,491
25	Wassa	22,572	18,480,600	5,632,526	26,008,390	17,453,908	8,554,483
26	Wisdom	44,165	48,341,143	12,856,984	54,302,926	32,154,849	22,148,077
	<b>Total</b>	<b>1,518,153</b>	<b>2,190,158,748</b>	<b>816,612,182</b>	<b>2,863,531,000</b>	<b>1,985,073,754</b>	<b>878,457,246</b>

**Source;** AEMFI as of December 31, 2006.

**3.3.1 Micro finance in Ethiopia:** - The Relief Society of Tigray (REST) had conducted an extensive base line survey in 1993 to identify the accessibility and constraints of rural finance, as a result REST implemented the Rural Credit Scheme in Tigray (RCST) in 1994 ( Belay Assefa, 2002). This was the first experimentation of micro finance service in Ethiopia. It was inspired by other countries experience and adapted to the conditions of the Tigray region. Government of Ethiopia issued a proclamation No 40/1996 as a new legislation of the National Bank of Ethiopia. Following the proclamation several credit programs that were operated by NGOs or government departments were transformed in to licensed micro finance institutions. Since RCST was required to restructure itself so as to become a registered micro finance institution in accordance with the requirements of the new legislation; and it was reorganized in to a new institutional form under the name " Debit Credit and Saving Institutions S.C" ( DECSI) in March 1997. Moreover, since the issuance of this proclamation, eleven MFIs have legally registered and started to deliver micro finance services. Hence, the development of MFIs in Ethiopia is quite a new phenomenon that has only ten years age (Worku, 2000).

The overall objectives of micro finance institutions in Ethiopian is to increase the productive potential of the poor people, particularly women headed households. In this sense, the primary objective of this program is poverty reduction and alleviation. Poverty reduction through the intervention of micro finance services would be come effective if additional components of household security are included. The micro finance service operates mainly on strategies of participation, gender focus, sustainability, increased the thriftiness, and enhanced production. The service follows a community participatory approach in which selection of beneficiaries, group formation, and program implementation of local community is the responsibility of the local councils and the direct beneficiaries. A special emphasis is for women so as to make women engage in some economic activities and earn income with out being discouraged by their male counterparts. Mobilization of saving to meet increased demand, long term

sustainability of the micro finance itself, and assistance to rise productivity in agriculture and others sectors, is additional strategy of MFIs (Ibid).

Most of MFIs in Ethiopia have similar administrative structure, each with a distinct set of functions. The common administrative tiers are; the head office, branches, and sub-branches. Recently members of AEMFI agreed to consider centers and groups as an internal structure; and groups formed to be community based for self help and self reliant development activities as well. The responsibility for setting policies, directives, and over seeing the operation as a whole lies on the board of directors. And the head office, which comprised of loan disbursement, repayment performances, saving and default records, and monitor department, is the center unit of the institutions. A high level of autonomy in the management is granted to the field offices consisting of branches and sub branches; and as a result it makes all administrative decisions except major disciplinary actions. The sub branches have direct contact with members, and hence it is the most important unit (Wolday Amha, 2002).

MFIs have challenges that obstruct their growth and development as well as to achieve their target. Inadequate infrastructure is one of the challenging elements in the effort to expand and diversify the micro financing services in rural and remote areas. Very poor road network and meager transport facilities have limited market outlets. The main impediments that requires assistance are identified as capacity building in terms of seed capital; office equipment and electronic data processing facilities, vehicles and technical know how in micro finance management. Since MFI targets the very poor with respectively high risk, there is a problem of delay in repayment. MFIs have high cost of transaction per borrower, therefore the cost recovery for them becomes very challenging (Getaneh Gobezie, 2002)

**3.3.2. Legal framework for MFIs in Ethiopia:** - MFIs provide services basic to both national economic development and individual welfare promotion. Their service delivery involves public property in the form of savings and channeling the same in to the institution that requires supervision and regulation of the state. Consequently they should conform to accepted standards and codes

of conducts pertaining to public finance service, since the deviation from these norms and standards can endanger public welfare and their sustainability. Like other financier institutions, it is proper to indicate the main legal reference to establish and operate microfinance institution. These legal instruments pertaining to the delivery of micro finance services are mainly contained in the financial sector legal regime and cooperative promotion proclamation. Thus, institutions created based on defined regulations, rules, and supervision reference of excellence could easily win public confidence and trust that will enable them to mobilize public savings, which in the long run provides lending fund (Hailu Gashaw, 2006).

National Bank of Ethiopia is the empowered body to license, supervises, and regulates the activities of micro financial institutions. The proclamation No.40/1996 defines a micro finance institution as “an activity of extending credit, in cash or in kind, to peasant farmer or urban small entrepreneurs, the loan of size which shall be defined by the National Bank of Ethiopia (Proclamation N.40/196, Article 2). MFIs in Ethiopia are required to be formed as a share company in accordance with the provisions of commercial code of Ethiopia, and they are required to have their own memorandum and articles of association that are consistent with all relevant laws and regulations in the country. Adequate start up capital is needed to provide micro finance service with working capital in its formation stage and early years of operation. According to the Directive No.MFI/09/96 of National Bank of Ethiopia, the minimum capital to set up and obtain MFI license is birr 200,000. Whether the minimum capital levels set by NBE is too high for potential entrants and posed significant entry barriers or it is too low and this allowed to many small entrants that create supervision problems and result in painful exit and consolidation, is a gap that needs further research and investigation (Mulate Demeke, 2000)

The proclamation No.84/1994, issued to provide for the licensing and supervision of banking business, is reserved for Ethiopian nationals only. The investment proclamation No 37/1996 also indicates that, banking and insurance areas of investment that are exclusively reserved for Ethiopian nationals as a law

and policy, and the same is true for micro finance institutions. Micro finance institutions are required to be formed as a share company in accordance with the provisions of commercial code of Ethiopia. Micro finance businesses are given preference in terms of small capital requirements, and a possibility of exemption from tax. On the top of this, the NBE is expected to provide technical assistance to micro finance businesses. Likewise, the ministry of finance is empowered to determine manners and conditions of tax exemption and to approve line of concessional credit and any foreign assistance for the purpose of lending or capitalization. Operationally, they are legally required to adopt non collateral solidarity group based lending under which each group member is jointly liable for defaulted loans of their group members (Hailu Gashaw, 2006).

A licensed micro finance institution is subject to on going supervisory and regulatory requirements. The major regulatory and supervisor requirements to be observed by MFIs in Ethiopia include interest rate regulation, single borrower loan limit, single loan period, provision for loan losses, and limit on investment are reporting requirement. MFIs are given the right to fix their lending interest rates with a maximum limit of 15.5 % (Directive No. MFI/10/98). The minimum saving interest rate was fixed by NBE as 6%, however; in 2002 NBE reduced the lower ceiling saving interest rate for formal banks and MFIs to 3% (Wolday Amha, 2006). The NBE has issued two directives that limit risk taking and encourage portfolio diversification. The size of a loan to a single borrower is limited to Birr 5,000 repayable in one year period (Directive No, MFI/05/96). The directive serves two purposes, i.e. it encourages MFIs to diversify their loan portfolio and ensures that MFIs remain focused on the low income target group of the population. MFIs are also required to limit their investment in non micro financing activities to 10% of their equity capital, to ensure that MFIs remain focused on their main line of business. To limit possible risk concentration in one single non micro finance business, the NBE has set the maximum equity investment in such activities not to exceed 3% of equity capital of MFI (Mulat, 2000).

MFIs required reporting to the NBE its operational activities and financial positions. The directive (Directive No.MFI/07/96) on opening of branch offices allows opening of branches and subsidiaries, or sub branch offices without prior approval of the NBE. However, it shall notify the opening of such branch not later than fifteen day after the commencement of operation of the branch. MFIs are also required to file the quarterly financial performance report with the NBE; statutory financial reports include income and expense statement, balance sheet, credit and saving performance schedule, and loan loss provisioning schedule under the Directive No.MFI /08/96 (Hailu Gashaw, 2006). The National Bank of Ethiopia, which is responsible for regulation and supervision of MFIs, has taken several steps to ensure that the formation and operation of such institutions are in line with the provision of law. In a nut shell, the merit of adherence to the minimum financial prudence is to the interest of the public at large. Similar to the conventional banking service, the state of the art as manifested in the legal framework for micro financial service demands that essential features of prudential practices are maintained in the management of the service. In this respect, the main essence of the regulatory and supervisory frame works are; to run legally registered and licensed share company or cooperative, to meet prudential standards that creates public confidence for mobilization of clients' and public savings, to adopt cost effective and client friendly transparent and participatory service delivery approaches in functions like loan processing, disbursement, repayment follow-up, collateral requirement that are different formal financial institutions, and registration is punishable by law (Mulat Damte, 2000).

**3.3.3. Growth and out reach of MFIs in Ethiopia:** - From the very beginning of micro finance history in 1996 up to now there is a substantial growth in the industry, this is realized through development of capable and sustainable MFIs. A large number of MFIs have achieved significant progress in terms of outreach and sustainability. As of December 31, 2006 there are twenty six MFIs delivering 2,190,158,748 birr worth outstanding loans to 1,518,153 active clients (AEMFI, December31 2006). The majority of the MFIs increased their efficiency

and productivity as a result of expansion; 12 out of 15 MFIs were operationally sustainable, and 5 out of 12 were financially sustainable. For instance, during 2004, out of 13 MFIs, which registered significant growth in outreach, 9 showed a remarkable decline in their portfolio at risk. A careful balancing of increasing outreach and sustainability; with a parallel focus on institutional capacity, reducing costs and risks, and improving efficiency, profitability and portfolio quality, is needed to address the financial demand of millions of unbanked people in Ethiopia. The specific interventions to increase the growth and sustainability of MFIs include; improving the institutional capacity of the MFIs through the implementation of an efficient organizational structure, creating an enabling legal, regulatory and policy environment, improved access to capital, selective government and donor support, and improving the demand side of the equation (Wolday Amha, 2006).

Outreach is measured in terms of the number of active clients (without outstanding), loan size, number of saving clients, volume of savings, percentage of loans to clients below the poverty line, percentage of female clients, range of financial and non financial services offered to the poor, the level of transaction costs levied on the poor and the extent of client satisfaction costs levied on the poor, and the extent of client satisfaction with respect to financial services according to Wolday Amha (2002). In the last ten years, the MFIs in Ethiopia have shown a remarkable progress in terms of outreach and performance, however on the other side there is a significant unmet potential demand for micro finance in Ethiopia. Only 20% of the demand for financial services of the active poor has been met through the twenty six MFIs (*Ibid*).

Sustainable, stable, professional, and efficient MFIs are important on poverty reduction coupled with the increasing growth and outreach to reach large number of clients. This implies that the growth of outreach of MFIs should be examined against profitability, efficiency, productivity, and portfolio quality. Sustainability shows the ability of the MFIs to cover their total expenses from their own financial service operations. Efficiency measures the cost incurred by MFIs to carry out their financial services. Ethiopian MFIs reach clients at lower

cost by the ratio of operating expense to loan portfolio which varied from 41.8% in Bussa Gonofa MFI to 3.8% in DECSI during 2004. The productivity of MFI operations is likely to grow rapidly as it builds up its staff and its lending experience. In 2004, the ratio of borrower per loan officer varied from 214 in Gasha MFI to 518 in PEACE MFI. During the same year, 9 MFIs registered significant increase in the ratio of borrower per loan officer. The expansion in outreach and maintaining the quality of portfolio is a question in the performance of MFIs. Within 2004, the Portfolio at risk ranges from 0.1% in PEACE MFI to 26.2% in Sidama MFI. Out of 15 MFIs, eleven had less than 5% portfolio at risk. The results found reveal that, even though many MFIs increased in outreach, they still maintained or even improved their portfolio quality (Ibid).

**3.3.3.1 Factors affecting the growth or out reach of MFIs:** - there are a number of factors that can affect the growth of MFIs in Ethiopia. The institutional capacity, lack of availability of loanable funds, policy and regulatory environment, supply driven financial products, macro and micro level of economic performance are among the factors. These factors result a tremendous gap to be filled in the future. The issue of reaching as many poor people as possible and the issue of achieving financial viability at institutional level are the two competing objectives faced by all MFIs. Even taking its outreach objective only, MFI is not free from challenges and difficulties. Hence, identifying the basic factors that hinder the outreach and growth of MFIs might help to find out the possible solutions and there by to expand the outreach and enhance it growth (Wolday Amha, 2002).

Institutional building is a process which ranges from a minimum of interference or modification to far reaching measures to restructure, transform and build entirely new institutions. Institutional building is important to up grade MFIs to increase their capacity and reach large number of clients on a sustainable base. The major factors that need to be addressed in building the institutional capacity of MFIs are good governance, human resource development, effective systems and efficient implementation. The other factor that affects out reach is the traditional supply driven financial products approach. Households are not homogenous and within one group different segments

appear with different needs, hence there should be a shift to demand driven financial products. Moreover, significant investment capital is needed to develop new or improving existing institutions to increase outreach. Securing appropriate investment capital for growth of out reach of MFIs is not merely a question of the availability of funds, but the form of funding. The loanable funds of MFIs in Ethiopia are sourced from mobilizing savings, equity, and loan from formal banks, rural financial intermediation program, donations, and income from lending activities. Hence, with lack of loanable fund and significant investment capital, it will become simply a dream to expand growth of out reach in MFIs. The sectoral and development policies, the commitment of government at various levels, the performance of the macro economy, the performance of the financial sector policies, the efficiency of the legal and regulatory system, fiscal and monetary system, and political system affects the growth of out reach of MFIs. Furthermore, growth of outreach of MFIs is affected by factors affecting the efficiency and productivity of active and potential clients (Geberehiwot and Wolday, 2004)

### **3.4. Review of related literature in Ethiopia**

The growth and expansion of micro finance institutions in the 1980s and 1990s, as apposed to the subsidy oriented credit delivery mechanism of earlier times, witnessed the complementary of poverty alleviation and organizational as well as operational sustainability. This approach and the subsequent results obtained through it captured the attention of policy makers, bilateral and multilateral lending agencies, international organizations and donors. The motto of this approach has been poverty alleviation on a sustainable basis. Undoubtedly, the micro finance industry is expected to play a significant role in the fulfillment of the targeted result if it is designed and implemented (Zaid, *et. al*, 2002). Different studies using different approaches has made in Ethiopia to assess the impact of micro finance institutions practice. As a result reviving the empirical evidences presented may help the writer to limit the scope and to find out the gap that needs further studies.

### **3.4.1. Some challenges of micro finance as antipoverty strategy on Amhara Credit and Saving Institutions (ACSI); Getaneh Gobezie, 2002.**

In his study, he has tried to explain the challenges of Amhara Credit and Saving Institution (ACSI) as an antipoverty strategy through investigation on its credit impact, methodological strength/ weakness, savings etc by taking 297 clients of the institution as a sample (Getaneh Gobezie, ACSI, 2002).

#### **Impact of credit**

**Return on investment:** - According to his finding, the return on investment for an average repayment period of about one year is 30% (not including imputed costs like family labor). Activity wise, 25% is for agriculture and 36% for trade. In terms of gender, men's profitability is higher than that of women's.

**Qualitative indicators:** - Apart from the monetary benefits there have been non monetary benefits such as increased food security (66%), constructing/maintenance house (18%), sending children to school (39%), buying additional oxen (14%), and other benefits such as experience in cash management, no disposing of assets, not having to go to money lenders, increased acceptance in the community (44%). Over all, 89.9% reported that their life has greatly improved, 6.7% reported they exhibit no change in their life style, while the remaining 3.3% experienced worse life as a result of the credit.

**Women empowerment:** - From 118 female clients, married women respondents were his target to review whether the use of loan improves their life and manage themselves. Accordingly, 38% said that they manage the loan on their own, 55% of them reported that their loan manage jointly with their husband, and 7% said that their loan was managed by their husbands.

#### **Methodological strength/weakness**

**Targeting mechanism:**-According to the study the targeting mechanism employed for credit beneficiaries, while apparently cost effective, tends to discriminate against the very poor and concentrates on service delivery for the non-target people. The poor and economically active tend to be ignored. There

appears very marginal involvement of ACSI officers in the selection of clients, and heavily reliance on the committees organized.

**The problem of group lending:** - According to Getaneh, the group guarantees and lending method applied by ACSI has resulted in poorer and more vulnerable people being excluded. From the total sample, 39.73% reported that they have at least one more pursuit in addition to their ACSI loan related activity putting them in a better position to offer collateral, and over 53% have formal education.

**Loan size, loan term:** - The loan size of ACSI is limited to a maximum of five thousand birr. Accordingly, almost 50% of the respondents indicated that they are okay with the loan size. However, clients engaged in trading activities ask for higher a loan size than others. The largest loan delivered has been utilized for agriculture and allied activities (56%), and 36% for petty trade, and the rest for processing/manufacturing, services and other activities. The repayment period which is a year in most cases, is enough for the majority (65%) of respondents.

## **Savings**

**Impact:** - There is a huge potential for saving mobilization in the region according to Getaneh. So far, ACSI has mobilized a total net savings of over 55 million Birr from its loan clients, non loan clients as well as associations and organizations. Accordingly, over 81% of the total loan outstanding has been covered from the net saving mobilized. These have been other areas of strength of the institution. According to him, some of the major benefits that saving clients expressed are; 38% respondents said it is nearer, 23% said trust worthy, 61% said easily accessible, 69% reported it helps to develop saving experience, 28% said it is source of additional income.

**Methodological limitations of saving:** - given the size of the regional population and the potential there, the mobilization efforts of the institution appear to be very limited. According to the writer, there are weak promotional efforts, i.e., among 600 potential clients of ACSI 30% do not actually know whether the institutions provide savings service, and 75% are unaware of ACSI's interest payment. The saving mobilization also suffers from lack of focus on the

poor. The majority (75%) of the voluntary savings clients are grade 7 to 12 and over 56% are wage earners.

In a nut shell, as we can understand from the above reviewed summary of the study made by Getaneh on ACSI, most of its part deals with the challenges of micro finance intuitions as an anti-poverty strategy, and this was made on both rural and urban areas. Though it is not doubtful that assessing the challenges of the institutions may help in fulfilling the task of their establishment, dealing with the poor by conducting a research that addresses them directly may help to find out the problems and obstacles that the poor face in getting loans. As the results and findings reveal, his study was made on both rural and urban areas and the impact of the loan was explained in a general manner. However, as we can understand from the socio – economic characteristics; the urban poor have distinguished character in economic activities, risk taking nature, social factors, etc than the rural poor. Hence, it became important to study differently for rural and urban poor. Even the loan size, loan terms and other services may not have the same demand in both areas. Thus, based on the above gap, conducting a research may give insight for further studies.

#### **3.4.2. Usage and impact of micro credit provision. A case study in DECSI (Fiona Meehan, 2002).**

The study was made on 64 beneficiaries of DECSI which 20 are females and 44 are men; and 31 urban settlers and 33 are rural. (Fiona Meehan, DECSI, 2002). The usage of micro credit loans based sector wise is, 62% of the loan used for agriculture, 8% for trade, 30% for hand craft / food processing activities, and 0.4% for service. The analysis made by the writer is classified into two broad categories. One the impact of micro credit that comprises; range and diversity of economic activity, change in house hold income, impact of increased income in house hold, and second is the gender analysis.

## **Impact of micro credit**

**Range and diversity of income:** - According to the finding gathered by Fiona, among the respondents, 20% of them only took loans to start new economic activities. The proportion of women taking on new activities was significantly higher (30%) relative to men (16%). In addition, 21% rural clients undertaking new activities compared to 19% urban clients.

**Change in house hold income:** - one of the positive impacts of micro credit is bringing a rise in income of house holds. Accordingly, with five years of loan experience, the study indicates 33 clients among 64 confirmed a considerable or modest increase in their economic status. And 15 respondents said no change in their income, the rest respondents reported they were worse off. A much higher proportion of rural clients reported an initial considerable increase as compared to urban clients. Men clients were also more likely to report considerable increase in income than female clients.

## **Gender analysis**

**Credit Usage:** - To view the gender analysis of credit, the writer has abstracted women headed house holds from the sample. In his study, a higher proportion of women than men took loans to start new activities rather than to expand existing ones while the range of economic activities practiced by both genders is equal.

**Share of loan disbursed:** - According to Fiona, clearer gender differences emerged in the average amount of loans taken, and in up take of credit for higher and lower return activities. The loan disbursed compared to their participation has greater difference in off form activities with women accounting for 16% of all trading loans, about 6% of the overall money disbursed. And the majority of loan taken accounts for other off form activities (64%) which received 50% of the loan funds disbursed. Average loans for women headed house holds were generally lower compared to overall female loan users.

In general, Fiona has tried to investigate the impact and usage of credit undertook by DECSI in relative to the range and diversity of economic activities, impact on income, gender issue etc. As it is stated, the study was made on both rural and urban areas. As a result, the writer has tried to put the impact of credit

on each areas (Rural and urban). More of the results indicated that the credit has positive impact on rural residents than urban residents. However, the study did not explicitly state the causes and challenges of failure in urban clients, and /or the opportunities that exist in rural areas. Moreover, DECSI had 255,000 active clients during 2002 (DECSI annual report, 2004), But the writer used 64 clients as a sample for his study that might be questionable methodologically. Hence, investigating the impact of micro finance programs in urban poverty alleviation and identifying the main challenges in urban areas especially for those practices made by government owned institutions may give some insight for further studies. Especially assessment on government owned micro finance institutions is needed due to the fact that their mission and vision is directly related to poverty alleviation as compared to private owned institutions, whose goal is profit.

## Chapter four

### Discussion and data analysis

#### 4.1. Socio-economic profile of Lideta sub-city

Poverty is rampant and is widespread in Addis Ababa city administration; 45% of the population is below the poverty line with no sufficient income to purchase the minimum food to survive, and the total unemployment rate is 34.7% (CSA, 1999). Lideta, one of the ten sub cities, is not out of the poverty burden that prevails within the city. Geographically it is located between 9<sup>0</sup>0'22" – 9<sup>0</sup>0'6" North latitude and 38<sup>0</sup>40'48" – 38<sup>0</sup>44'43" East longitude. The sub city is established according to the proclamation No. 1/2003 of Addis Ababa city administration composing of 18 kebeles which are now rearranged in to 9 kebeles for the purpose of effective administration. The administrative layer of the sub city is based on the division of sub-city and kebele administrations; and the operations are classified in to municipal and non municipal executive divisions. The total area of the sub city is 1240.4 hectare (Culture and information office of Lideta sub-city, 2004). The study made by Civil and Social Bureau of Addis Ababa City Administration (2004) reveals the demographic, house hold income, housing condition, economic factors that are summarized bellow.

**4.1.1. Demographic characteristics:** - Lideta sub-city has a total population of 296,073 which ranks 7<sup>th</sup> among the sub-cities; and the density of population is 238.96 per hectare. Based on age-gender composition, the sub-city's distribution of males and females shows that more than half (58%) of the residents are concentrated at the age group 11-30 years. Based on relationship, 49.8% heads of the household are males, and 50.2% are females. The illiteracy level within the sub-city is higher for females (15.9%) than males (7.5%). The unemployed constitutes 16.7% for males and 28.6% for female; and among those engaged in income generating activities, 59.4% of males engaged in trade activities, and for females 75.6% of those who engage in income generating activities engaged in small trade (Gulit). The disability status also reveals that

only 7% of the Sub-City residents have disability problems such as walking problems, mental problems, sight problems etc; and of the disabled persons, only 0.2% obtained support.

**4.1.2. House hold income and housing conditions:** - There are 35896 households in Lideta sub-city having average family size of 5 members. The area (especially kebele 09/10) is one of the densely populated areas in the sub-city. The tenure status, monthly rent and conditions of housing shows that 63.3% of the houses are kebele houses, 19.6% are owned privately, and the housing agency constitutes only 13.9%. Among the residents who rented a house, 81.2% rented from kebele, 17.8% from the housing agency, and only 1.1% of the residents rent a house from individuals. Regarding the status of houses, 17.1% of the houses are in good condition, and 69.9% are not good but need little repairing and 0.1% have bad conditions and are not able to be repaired. Among the residents, 62.6% have no toilets, and only 5.3% of the housing units have private toilets, and about 28.9% of the housing units have shared toilets. Based on the household income and its source; 38% of source for income is husbands, and the next source of income is children that constitutes 23.5%. The source of income for 21.2% is from daily labor, 14.7% from pension and small trade, the lowest source of income in Lideta sub city comes from government and NGO offices.

**4.1.3. Education and Health status:** - In Lideta sub city there are 45 government and private owned health institutions; 4 government owned and 1 private owned hospitals, 3 health stations, 34 private owned and 21 company owned clinics. Within the sub city more than half of the households (64.8%) are using government health facilities, and 35.2% house holds use private health institutions. Among the total residents of the sub city, 68.8% households are at risk of death within three years due to accidents, old age, sickness or/and other reasons. Disease like HIV/AIDS is common within the sub city, i.e., the low level income coupled with higher number of youth (55.4%) is a reason for unprotected sex and prostitution. Regarding education, there are 24 junior and elementary public schools, 4 public technique schools, 3 private owned schools, 2 private

colleges. From the total residents, 31% of the families are currently able to send their children to school, and around half of the house holds send some of their children while some do not due to economical barriers or negative attitude towards education. Moreover, the sub city has higher number of street children and the poorest section of population in Addis Ababa. The presence of street children in the sub city is a sever problem that comes due to death of parents, parents' separation, poverty etc; and large number of Children pass the day time on the streets and come home to sleep only.

In general, Lideta sub city, which is located on the main center of the city, is mainly characterized as a poor sub city. The demographic data such as analysis of the population based on age, parentage, occupation, and civil position etc reveals the fact that there are a large number of poor populations within the sub city. The data on economic involvements and employment situation of the population within the sub city also supports this idea. Moreover, availability of high number of street children, poor housing conditions, high unemployment rate, poor health condition, lack of educated people, lack of finance to send children to school, HIV/AIDS etc are other implications of the poverty status of the population in the sub city. Hence, an integrated intervention by government, donors, and other NGOs is needed for the alleviation and reduction of poverty.

## **4.2. An overview of Addis Credit and Saving Institution**

Addis Credit and Saving Institution (AdCSI) is a micro financial institution which operates within the boundaries of Addis Ababa city administration. It was established and registered at the National Bank of Ethiopia on January 2000 according to the Bank's (NBE) proclamation No.40/1996. It is owned by six shareholders, namely; Addis Ababa city administration, Addis Ababa city women, youth association, teachers association, Karaalo Akababi Hulegeb peasants' cooperative, and one individual. The major services given by AdCSI are; providing credit service to micro and small enterprise and potential operators, counseling and provision of advise for the targeted group on business and financial affairs, facilitating business development services for clients, affecting payments, and collecting revenue for other institutions. AdCSI is now operating in

all sub cities of Addis Ababa city Administration through 10 sub branches at sub cities, and in 88 service delivery posts established in Kebeles.

**Table 5:** Loan disbursed, saving mobilized, number of clients from year 1995-1999 E.C.

Year	No of clients	% of female clients	Loan disbursed	Saving mobilized	percentage
1995 E.C	4500	81.5%	6896000	2528000	36.7%
1996 E.C	21523	60.7%	44062450	4466909	10%
1997 E.C	26944	50.2%	109559000	42238562	38.6%
1998 E.C	10858	58.95%	51007943	198290058	38.9%
1999* E.C	9130	57.5%	120000000	50000000	40%
<b>Total</b>	<b>72955</b>		<b>325318993</b>	<b>119062529</b>	

**Source:** 1999 E.C. half year report; 1999\* E.C. only for six months of the year.

The institution had 10858 clients and 51,007,943 birr loan disbursed during 1998 E.C. According to 1999 E.C. half year report, it has 9130 clients within 6 months and 120 million birr disbursed. The percentage of women clients is 57.5% in 1999 E.C that shows a 1.45% declining from 1998 E.C. budget year. However, the saving mobilized has increased in 1999 E.C. by 1.1% within the six months.

**4.2.1. Organization and Management:** - As per the commercial code of Ethiopia, next to the general assembly of shareholders, the highest and decisive governing body of AdCSI is the board of directors. The members of the board of directors are elected by shareholders general assembly; even though the city administration, the effective shareholder (96.7% of paid up capital) is dominant. The current board of directors is composed of eight individuals having various levels of educational backgrounds. They are drawn from Bureau of Trade and Industry, AEMFI, SMEs Development Agency, Finance Bureau, and association of youths and women. The board is responsible for policy issues, directions, approving plan budget, appointing the general manager and auditors.

The institution has a three tier organizational structure, namely; head office, branch office, and service delivery posts. There are 10 branch offices at

sub city level and 88 service delivery posts at kebeles. From these 88 services delivery posts, 76 works at full capacity and each of them have four staff (head, accountant, cashier, and loan officer). Currently there are 379 staff, of which 37 (9.7%) are stationed at the head office and the remaining 342 (90.2%) at branch offices.

**4.2.2. Objective, Mission, and Vision of the Institution:-**AdCSI's vision is to become an active contributor towards poverty reduction efforts and would like to see improvement in the life of low income people. And its mission is promoting micro and small enterprises to alleviate poverty and unemployment prevailing in Addis Ababa city administration territory through provision of sustainable financial and other related services with particular attention to women. Having this vision and mission, the institution has broad objectives such as:

- ✓ Provision of credit and savings services to as many active poor as possible
- ✓ Enhance the development of micro and small enterprises
- ✓ Give the priority to women in the provision of financial services
- ✓ Creating long term self-employment in income generating activities
- ✓ Enhance the culture of saving by target people and wider public
- ✓ Assume financial and operational self sufficiency of the institution

**4.2.3. Credit Operation policies:-**AdCSI is basically demand driven. Since its establishment, AdCSI has been using solidarity group lending methodology by starting from the mid of 1995 E.C change in policies, procedure, and methodology of the institution has started to provide individual loans on personal guarantee and/or collateral basis. Cooperatives and joint ventures are also entertained on the same line. The type of guarantees used by the institutions are: group guarantee, salary of permanent employees working in governmental organizations, non-governmental organizations, and private sector, collateral (a house or vehicle), clients of the institution (their savings), joint individual and machineries guarantee, Edirs, cooperatives, and public enterprise. To obtain the service, clients can apply at service delivery posts of the institution, branch

offices, office of micro and small enterprise development, through Edirs and cooperatives which have signed agreements with the institution.

**4.2.3.1. Type of Loan Products:** - There are four types of loan products. These are: micro business loan sometimes called general loan, small business loan, micro lease, and housing loan. Micro business loan product has a nature of installment and it is disbursed for high turnover activities like retail trade activities, Gultit, and so on. The amount for this type of loan ranges from 500 birr to 5000 birr. The second type of loan is small business loan, disbursed relatively for well established businesses, and technical and vocational school graduate students who want to enter in to productive ventures and the size of the loan is usually greater than 5000 birr and less than 20,000 birr for each entrepreneur. Micro lease loan disbursed for the purchase of machines according to the choice of clients. This type of loan is rendered mostly to people who are organized in to cooperatives. Housing loan is a loan provided to the advance payment required for owner ship of condominium house. Depending up on the nature of the business, the loan products are characterized in to term loan and installment loan. Term loan is a type of loan disbursed and collected within a given time, which have gestation period; while for Installment loan collection of payment is made monthly. Loan can be provided for the purpose to start and/or expand business engaged in weaving and tailoring, metal and wood work, food processing, and production of construction inputs, municipal service like solid waste disposal and parking, retail trade, urban agriculture, leather products, and other income generating activities. The main loanees are Addis Ababa city residents who are 18 years old and above, Edirs (legally registered), cooperatives, Joint ventures, and other business associations.

**4.2.3.2. Loan size, Interest rate, and service charge:** - The feasibility of the project is given the prime importance in the determination of the amount of loan to be given on credit and for controlling purpose and the institution decide the loan size accordingly. This includes both working capital as well as investment.

Description	For new clients	For existing clients
Individuals	Up to 20000 Birr	Up to 30000 Birr
Joint ventures and others	Up to 40000 Birr	Up to 60000Birr
Cooperatives	Up to 60000 Birr	Up to 1000000 Birr
Edirs	On agreement	On agreement

**Source:** profile of AdCSI 1999 E.C

AdCSI charges 10% of lending interest for installment and micro lease, and 12% for term loans per annum on flat rate basis. In addition to this 3% service charge is paid for all micro lease and small loans. For the house loan, the interest rate is 10% for studio and one bed room, and 12% for two and three bed room house and it is service charge free. The time of repayment ranges from 12 months (for term loan) to 48 months (housing loan) as it is shown below.

Loan size	Maximum time allowed for repayment
Up to 2000 Birr	Up to 22 months (the duration varies with loan size)
2001-5000 Birr	24 months
Above 5000 Birr	36 months
Term loan	12 months
Housing loan	48 months

**Source:** profile of AdCSI 1999 E.C

**4.2.4. Saving operation policies:** - Saving is an important component of the program, it serves as a source of lending capital, provides cash collateral for loans, and enable to generate income through interest spread. AdCSI provides saving service to both borrowers and non borrowers. There are three types of saving services provided by the institution. These are mandatory saving (borrowers specific), personal (voluntary) saving (borrowers and non borrowers client), time deposit (institution and other clients). Except for the time deposit, the institution pays an interest of 4% per annum for the amount mobilized through

saving. The interest rate for the time deposit is decided on negotiation. The institution also recently started box saving to promote voluntary saving. Apart from the saving service, AdCSI provides two types of insurance. The first is credit insurance provided to borrowers only. To write off the loan in case of a death, the client is required to pay 1% up front insurance premium of the loan for the year and 1% of the outstanding balance for the coming year if any. The second is a business insurance provided to cooperatives and joint ventures in case of a complete damage of their business. The insurance premium to be paid is the same as the first type.

### 4.3. Questionnaire analysis

#### 4.3.1. General characteristics of sampled respondents

Out of the total clients actively participating in the program in Lideta sub city, a sample of 125 clients were selected randomly taking 10% of the population in each kebele as a sample ratio; and every kebele within the sub city that has AdCSI's service deliver post office was assessed by taking 10% of its total clients. From the total sampled respondents about 70.4% were women and 29.6% men. The distribution of respondent by age, sex is shown in the table below.

**Table 6:** Distribution of respondents by age and sex

Description	Number of respondents	Percentage of respondents	Cumulative percentage
<b>Sex</b>			
Female	88	70.4%	70.4%
Male	37	29.6%	100%
<b>Total</b>	<b>125</b>	<b>100%</b>	
<b>Age group</b>			
18-35	83	66.4%	66.4%
35-55	38	30.4%	96.8%
>55	4	3.2%	100%
<b>Total</b>	<b>125</b>	<b>100%</b>	

As can be shown in table 6; most of respondents about 66.4% lay in the age range of 18-35 years which implies that most borrowers are young. Even the

second group of age range from 35 to 55 years has a good proportion of borrowers (30.4%). Then, almost 96.8% of borrowers are at their productive age, and this means the distribution of loan to the productive age is satisfactory enough. Only 3.2% of respondents have an age greater than 55 years. The second category in terms of sex is mostly dominated by women, i.e., 88 (70.4%) of respondents are women and 37(29.6%) of them are men this shows that special attention for women in the service is good; and women are participating actively. The house hold size of a family indicates the level of dependency in the house hold, or the numbers of dependents in a house hold. The educational level of respondents and their family size is also given in the next table below.

**Table 7:** family size and educational level of respondents

Description	Number of respondents	Percent of respondents	Cumulative percent
<b>I. Family size</b>			
1-4	78	62.4%	62.4%
5-10	45	36.0%	98.4%
>10	2	1.6%	100%
<b>Total</b>	<b>125</b>	<b>100%</b>	
<b>II. Educational level</b>			
Illiterate	5	4%	4%
traditional education attended	10	8%	12%
elementary school(1-6)	17	13.6%	25.6%
secondary school(6-12)	47	37.6%	63.2%
Above secondary school (>12)	46	36.8%	100
<b>Total</b>	<b>125</b>	<b>100%</b>	

Table 7, above shows the family size and educational level; accordingly 78 (62.4%) of respondents have 1-4 family size, 45 (36%) have a family size of 5-10, and 2 (1.6%) of respondents have a family size more than 10. With respect to educational level; 37.6% (47) of respondents have an educational level of secondary school (6-12), 36.8% (46) respondents have an educational level above secondary school, 17 (13.6%) respondents have an educational level of elementary school (1-6), 10 (8%) have attend traditional school, and 5 (4%) of respondents are illiterate. The educational level of respondents shows that most of borrowers 93 (73.4%) of them have attended a secondary school and above.

Apart from this, 93(74.4%) of the total sampled borrowers are head of a house hold, and the remaining 32 (25.6%) are not.

**4.3.2. Out reach of AdCSI program in Lideta sub city:** - Theoretically micro finance implies providing the poor with saving, credit, and insurance facilities to set up income generating activities such as agriculture, non farm sectors, and there by to increase house hold income (Rajasekhar ,2004) . Hence, in the study of micro finance and its role on poverty reduction investigating the out reach of micro finances' program, i.e., who are the beneficiaries? Are the targeted poor benefits from the program? became mandatory; and the same is applied in this study. Respondents were asked their educational level, occupation, average monthly expenditure and income, standard of living that can be shown as below.

**Table 8:** Distribution of respondents on occupation and standard of living

Description	Number of respondents	Percentage of responds	Cumulative percent
<b>I. Occupation</b>			
Merchant	64	51.2%	51.2%
Civil servant	48	38.4%	89.6%
Daily laborer	6	4.8%	94.4%
Others ( bakery, salon, cafeteria)	7	5.6%	100%
<b>Total</b>	<b>125</b>	<b>100%</b>	
<b>II. Standard of living</b>			
	<b>Number of respondents</b>	<b>Percentage respondents</b>	<b>Cumulative percentage</b>
poor	31	24.8%	24.8%
Absolutely poor	6	4.8%	29.6%
Middle class	88	70.4%	100%
Rich	-	-	-
<b>Total</b>	<b>125</b>	<b>100%</b>	

As can be shown from table 8, higher number of sampled borrowers are merchants 64 (51.2%), and 48(38.4%) of respondents are civil servants, 6(4.8%) are daily laborers, and 7 (5.6%) of them engage in other activates like bakery (enjera), salon, cafeteria. The result shows that there are a huge number of civil and merchant clients relative to daily laborers and the other occupation stated. And this implies that, the poor who have no job, low level of education has not

outreached by the program. Apart from this, respondents were asked to rank themselves as poor, absolutely poor, middle class, and rich in terms of their standard of living. As a result, 88(70.4%) respondents rank themselves as middle, 31(24.8%) as poor, 6(4.8%) of them rank themselves as absolutely poor, which reflects the same result obtained from the occupational status. More over, respondents were asked their average monthly income and expenditure that can be shown below.

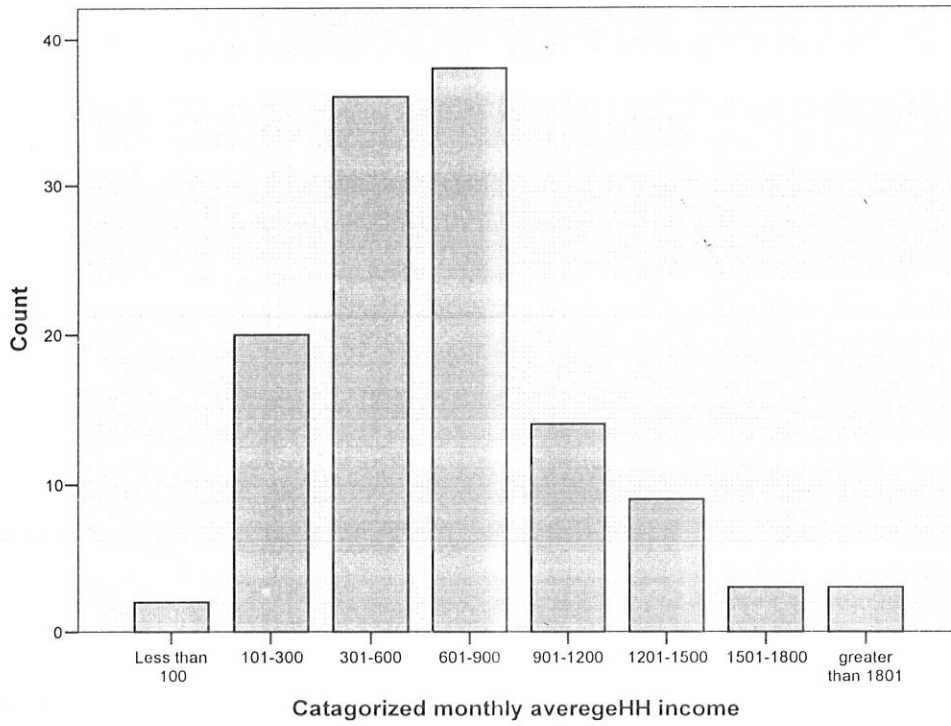
**Table 9:** Average monthly income and expenditure

Birr per month	Average monthly income			Average monthly expenditure		
	Frequency	percent	Cumulative	Frequency	percent	Cumulative
< 100	2	1.6%	1.6%	2	1.6%	1.6%
101-300	20	16%	17.6%	27	21.6%	23.2%
301-600	36	28.8%	46.4%	43	34.4%	57.6%
601-900	38	30.4%	76.4%	34	27.2%	84.8%
901-1200	14	11.2%	88%	6	4.8%	89.6%
1201-1500	9	7.2%	95.2%	9	7.2%	96.81%
1501-1801	3	2.4%	97%	3	2.4%	99.2%
> 1801	3	2.4%	100%	1	0.8%	100%
<b>Total</b>	<b>125</b>	<b>100%</b>		<b>125</b>	<b>100%</b>	

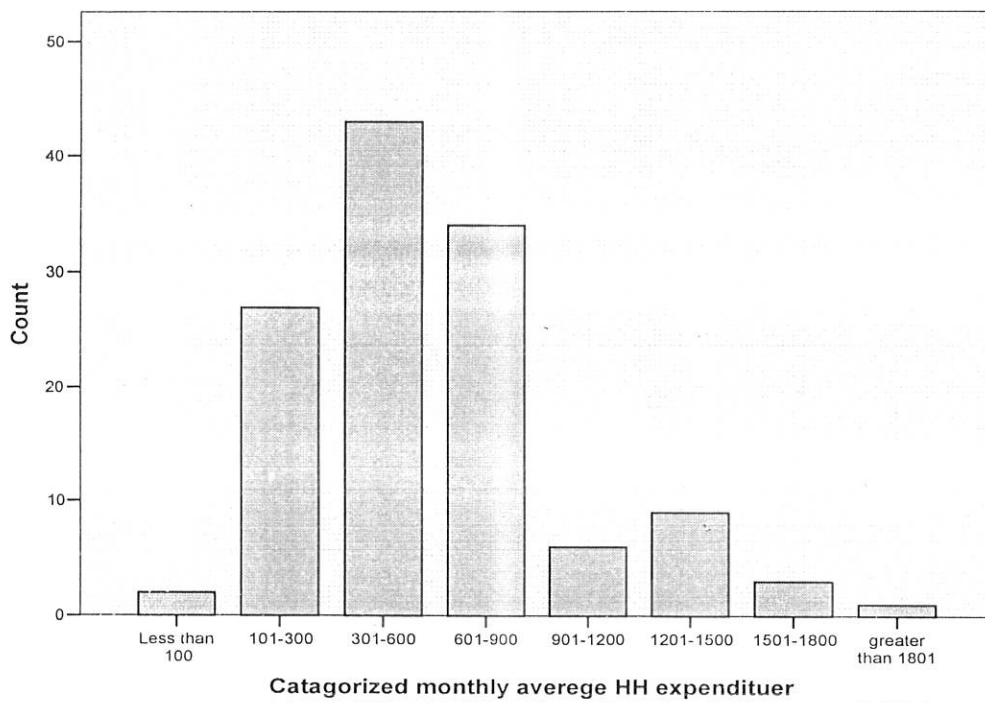
Mean for the average monthly income and expenditure

Description	Total number of respondents	Minimum	Maximum	Mean
Average monthly income	125	50 birr	2800 birr	718.58 birr
Average monthly expenditure	125	80 birr	2100 birr	630.08 birr

**Bar Graph.1. monthly average income**



**Bar Graph.2. monthly average expenditure**



As indicated in table 9 and the graphs; 22 (17.6%) of respondents have monthly income below 300 birr, 88 (70.4%) the highest number of sampled borrowers have average monthly income ranged from 301-1200 birr, 15 (12%) of respondents also have average monthly income more than 1201 birr, and the mean is 718.58 birr. In terms of expenditure, 29 (23.2%) of respondents have less than 300 birr average monthly expenditure, 83 (66.4%) of them have birr 301-1200 average monthly expenditure, 13 (10.4%) of respondents have also monthly expenditure above 1201 birr, and the mean is 630.08 birr. Thus, in both approaches, most of the sampled borrowers can be classified as a middle class depending on their income and expenditure that implies the poor are not yet out reached. Hence, all the above findings show that the out reach of the program in Lideta sub city especially to the targeted urban poor is low. Even the number of borrowers with respect to total population of the sub city is not satisfactory, i.e., from the total population (296,073), only 1324 are getting the service which is 0.45% 1999 E.C budget year. From 1324 borrowers as it is indicated in the above, the middle class have a higher number than the poor. Then the question of out reaching the targeted urban poor through micro financial service in Lideta sub city remains an unanswered. However, the service delivery channel AdCSI uses to address all kebeles with its all service delivery posts in each kebele is strong and encouraging.

**4.3.3. Credit Utilization:** - It is obvious that borrowers take a loan for the purpose of different activities. The provision of micro finance from the theoretical perspective is to reduce poverty level through enabling the poor to participate in income generating activities (Morduch, 2004). However, due to the fungible nature of money, borrowers can use the loan for non productive and non targeted activities like paying for credit they had before, for ceremonial expenses (weeding) etc. There seems to be three types of reasons for fungibles; manipulation of loan types, poverty, lack of knowledge (discipline), and factors that some times can appear in combination. First, loan for different types of activities have different conditions and hence it can be tempting to apply for a loan that suits one's situation even though the money is not intended for that use.

Secondly, poverty might force clients to use available loans for immediate problems they face. Third, lack of knowledge or discipline is no doubt one reason behind diversion of loans, i.e., clients might have unrealistic idea about how to use the loans and ends up spending the money in other way than was intended and stated as the reason to take a loan (Schreiner, 2002). Hence, the credit utilization of borrowers can play its role on the poverty alleviation efforts.

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

**Table 10:** Distribution of respondents according to the reason that promotes them

<b>What promotes you to take the first loan?</b>	<b>Number of respondent</b>	<b>Percentage</b>	<b>Cumulative percentage</b>
To expand my business	33	26.4%	26.4%
To change the old one in to another business	1	0.8%	27.2%
To open new business	30	24.0%	51.2%
I felt that I can do some thing useful	28	22.4%	73.6%
To repay the debt I had taken fro other	4	3.2%	76.8%
To solve serious problem of leak of money	16	12.8%	89.6%
To be independent of my spouse	4	3.2%	92.8%
To pay educational fee	2	1.6%	94.4%
To solve accidental problems (death of husband	1	0.8%	95.2%
To send my son /daughter abroad	2	1.6%	96.8%
It was by chance I decide to take alone	1	0.8%	97.6%
Other ( to repair house)	3	2.4%	100%
<b>Total</b>	<b>125</b>	<b>100%</b>	

As it is indicated in the table above, the main reasons to take loan put by borrowers are to expand business (26.4%), to open new business (24%), to use for some thing useful (22.4%), to solve serious problem (12.8%). In addition, 3.2% respondents took the loan to repay the debt they had from other source, and the same percentage of respondents took the loan to be independent of their

spouse. About 8% of respondents took the loan to change the old business they had, to pay educational fee, to solve accidental problems, to send their son/daughter abroad, to repair their house, and the remaining took a loan by chance with out intended purpose. However, the basic determining factor is not the reason of borrowers to took a loan, rather it is the purpose they used and what percent of the loan they use for the intended purpose. Accordingly, the sampled borrowers were asked the purpose of utilization of the loan and what percent were used for that intended purpose as it is shown below.

**Table 11:** Distribution of respondents according to the purpose and amount used

<b>I. For what purpose do you use the first loan you took?</b>	<b>Number of respondents</b>	<b>Percent</b>	<b>Cumulative percent</b>
Petty trade	71	56.8%	56.8%
Textile	4	3.2%	60.0%
Wood work	2	1.6%	61.6%
Construction	3	2.4%	64.0%
Food consumption	9	2.2%	71.2%
To pay other loan	4	3.2%	74.4%
I don't remember	8	6.4%	80.8%
Other	24	19.2%	100%
<b>II. What percent have you use for the intended purpose?</b>	<b>Number of respondents</b>	<b>Percent</b>	<b>Cumulative percent</b>
All (100%)	34	27%	27.2%
More than half (>50%)	51	40.8%	68.0%
Half (50%)	27	21.6%	89.6%
Less than half (< 50%)	13	10.4%	100%

As shown in table 11; 71(56.8%) of respondents use the loan for petty trade, 4(3.2%) of respondents use the loan for textile, 2 (1.6%) of respondents use the loan for wood work, 3 (2.4%) of respondents use the loan for construction, 9 (7.2%) for food consumption, 4 (3.2%) said they use the loan to pay other loans, and 24 (19.2%) reported they use for other purposes such as to pay educational fee, to solve serous problems they face and some of them did not remember . How ever, putting only the purpose of loan borrowers use it is not the only condition rather what percent of their loan have use for the intended purpose is also another part that could get a due attention. Thus, according to their

response there is good usage of loan for the intended purpose, i.e., 34 (27.2%) reported that they use all to the intended purpose, 51(40.8%) said they use more than half of the loan they took use for the intended purpose, 27 (21.6%) respondents use half of their loan, and 13 (10.4%) respondents reported that they use less than half of the loan for the intended purpose.

#### **4.3.4. Change in living standard and employment opportunity: -**

The urban credit program is launched mainly to reach out the urban poor through providing some financial access in order to enable them to participate in different economic activities so as to improve their living standard. To be clear of the impact of AdCSI credit facility on the improvement of the societal well being; the study tries to look the change in living standard of the respondents and what improvements/ deterioration do come out as a result of being user of the services. The other impact of micro finance might be its role in providing employment opportunity, i.e., from the notion that the access to finance for poor helps them to engage in income generating activities and there by at least result a self employed individuals in their own business (Legderwood, 2000). Hence, the study tries to look the employment opportunities existed due to the micro finance program provided by AdCSI in Lideta sub city that can be summarized as follows.

**Table 12:** The change in living standard and employment opportunity

<b>I. what can you say about the impact of AdCSI program in your house hold life?</b>	<b>Number of respondents</b>	<b>Percentage</b>	<b>Cumulative percent</b>
Very big positive impact	35	28.0%	28.0%
Good, mainly temporary	43	34.4%	62.4%
Partly positive , partly negative	15	12%	74.4%
No change	29	23.2%	97.6%
Negative impact	3	2.4%	100%
<b>II. How many employees do you have in your business that started through the loan?</b>	<b>Number of respondents</b>	<b>Percentage</b>	<b>Cumulative percent</b>
None	76	60.8%	60.8%
1	29	23.2%	84%
2-5	19	15.2%	99.2%
>5	1	0.8%	100%
<b>Total</b>	<b>125</b>	<b>100%</b>	

According to table 12, out of the total respondents 35 (28%) of respondents reported they exhibit very big positive impact, 43 (34.4%) respondents show that the change is good but temporary, 15 (12%) said partly positive and partly negative impact, 29(23.2%) respondents reported there is no change resulted due to the impact of AdCSI's services in their livelihood , and small number of respondents 3(2.4%) reported their life has worsened often after they start to take a loan. Over all, out of the total sampled borrowers 62.4% (78) borrowers exhibit a good improvement on their life which shows the success of the program though as it is indicated on the earlier sections the borrowers are mainly dominated by middle class. Beside of this, there is another impact of micro finance, i.e., its role on employment opportunity through enabling the poor to participate on micro and small enterprises. Accordingly in Lideta sub city among the sampled borrowers 29 (23.2%) said that they hired one employee in the business they start through the loan ,19(15.2%) reported they have 2 to 5 employees , only one respondent (0.8%) reported that he/she hired more than 5 employees , and 76(60.8%) reported they did not hired any employee. Hence, regarding the employment opportunity the program has not resulted an encouraging and promising out come.

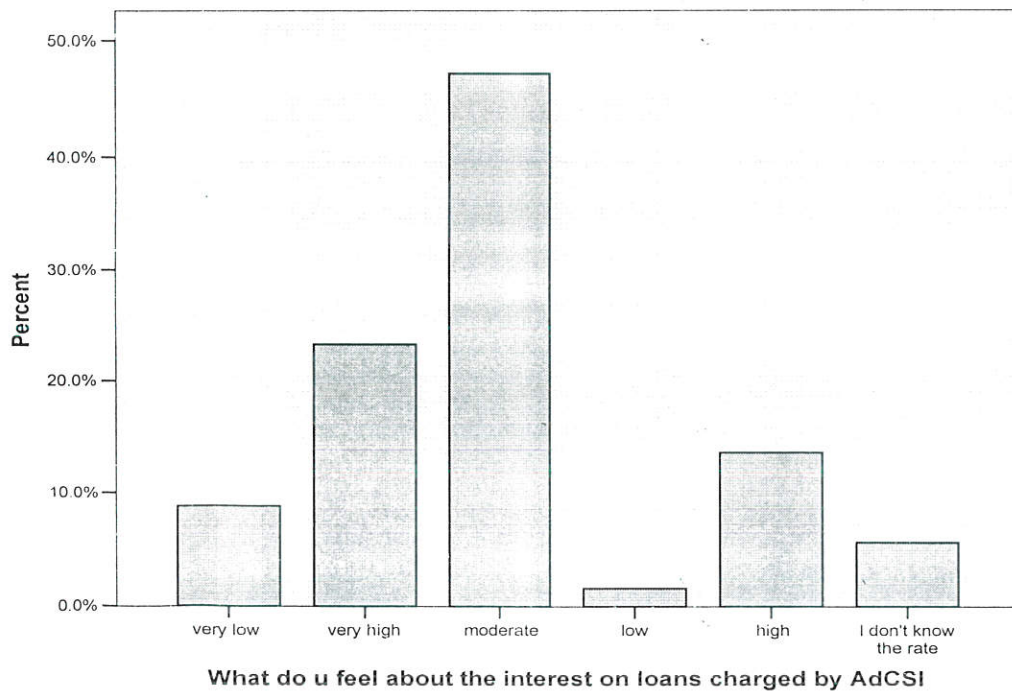
**4.3.5. Interest rate and loan size:** - In most cases, micro finance institutions charge a higher interest rate compared to the formal banks. The justification behind the higher interest rate is due to the risk and uncertainty of lending to poor with out collateral since it is based on joint liability. However, in Lideta sub city most of borrowers have took a loan individually, i.e., 106(84.8%) of sampled borrowers are individual borrowers and 19(15.2%) respondents are group borrowers. The individual lending methodology is given based on collateral requirement, that is, house, vehicle, or government and non governmental organization workers can be used as guarantee. Despite the collateral requirement the institution charges 10% interest rate for installment and micro lease loan, and 12% for term loan per annum on flat rate basis. The argument on interest rate of micro finance institutions base on two aspects? One there should be higher (but moderate) interest rate that can save the institutional

sustainability, and the second is it should be lower that can not exploit the poor more than they can gain as profit from the business they run through the loan (Rajasekhar,2004). But having a collateral and higher (more than banks) interest rate is questionable. Hence, sampled borrowers in Lideta sub city were asked their response towards the interest rates charged by the institution that can be summarized as follows.

**Table 13:** Distribution of respondents according to their response on interest rate

What do you feel about the interest charged by AdCSI?	Frequency	Percent	Cumulative
Very low	11	8.8%	8.8%
Low	2	1.6%	10.4%
Moderate	59	47.2%	57.6%
High	17	13.6%	71.2%
Very high	29	23.2%	94.4%
I don't know the rate	7	5.6%	100
<b>Total</b>	<b>125</b>	<b>100%</b>	

**Bar Graph.3.** response of respondents to interest rate on loan



As can be shown in table 13 and graph above, sampled borrowers have differently reacted to words the interest rate. Among total respondents, 8.8% (11) respondents said there is very low interest rate, 1.6% (2) respondents said the interest rate is low, 59 (47.7%) of respondents reported that the interest rate charged is moderate, 17 (13.6%) said there is high interest rate, and 29 (23.2%) explained the interest rate charged as very high, and some few respondents 7 (5.6%) said that they did not know the interest rate charged which implies that there need to provide information to borrowers about the interest rate charged. In general what can we conclude from the respondents perspective is, 36.8% (46) respondents explored the rate as higher than they assume, hence the institution should give a due attention to the interest rate on loans. This becomes sound because most of its clients are individual borrowers who need to have some collateral to take a loan, and then even in times of delinquencies the institution can use the collateral to repay its loan.

Loan size limited by the institution is another factor that can affect poor borrowers to engage in income generating activities. The directive of the National Bank that limits the maximum loan size to single borrower has two reasons for being 5000 birr. One is it serves to MFIs to diversify their loan portfolio, and secondly it ensures that MFIs remain focused on the low income target group of the population (Directive No.MFI/05/96). Now days through the micro bank AdCSI can lend to its clients up to 100,000 birr depending on the project they have. The poor who have lack of education, business knowledge, have difficulty to make project proposals, hence they prefer to take a general loan that has a maximum limit of Birr 5000 for single borrower. Thus, sampled respondents were asked their feeling to the loan size relative to their demand and business they run, that can be shown as below.

**Table 14:** Distribution of respondents according to the loan size

<b>What do you feel about the loan size in relative to your business?</b>	<b>Number of respondents</b>	<b>Percent</b>	<b>Cumulative percent</b>
Very low	20	16%	16%
Smaller than required	25	20%	36%
Good enough	77	61.6%	97.6%
More than enough	3	2.4%	100%
<b>Total</b>	<b>125</b>	<b>100%</b>	

As it is indicated in table14; out of the sampled respondents , 20(16%) of them said the loan size is very low, 25 (20%) said it is smaller than they required , 77(61%) reported the loan size as good enough relative to their business, and 3 (2.4%) said that the loan size is more than enough. The result reveals that majority of sampled borrowers are happy (61.6%) of the loan size given by the institution. Hence, the loan size has some encouraging response and demand by borrowers though some improvement is needed to capture a higher number of satisfied borrowers.

**4.3.6. Training and promotion to encourage poor:** - Simply developing and establishment of micro finance institutions in the urban areas could not result an improvement on poverty alleviation intervention. Out reaching the poor and enabling them to use the micro finance service so as engage them in income generating activities is the primary concern. The urban poor are characterized as risk averse, lack of knowledge; lack of information, lack of financial service etc. Thus, to make the poor out of poverty through establishment of micro finance institutions that could fill the financial gap only will not become successful. Apart from the financial service delivered, micro finance institutions need to promote themselves to update the poor about over all information of the institutions, and help through providing some training on business planning, marketing, book keeping etc (Fiona Meehan, 2002). Hence, sampled respondents were asked how they know first about AdCSI program in order to investigate the promotional activities made by the institution to address a large number of borrowers and to evaluate credit plus activities of the institution to help the unbanked poor.

**Table 15:** Distribution of respondents according to their know how about AdCSI

How do you know first about AdCSI?	Number of respondents	Percentage	Cumulative percent
From kebele administration	20	16%	18.4%
From group members	3	2.4%	55.2%
From AdCSI staff	46	36.8%	61.8%
From media (TV, Radio, News paper )	7	5.6%	94.6%
From friends	41	32.8%	96.0%
From parents	3	2.4%	98.4%
I did not remember	3	2.4%	100%
Others	2	1.6%	
Total	125	100%	

As can be shown in table 15; the promotional activity is mainly made by the institution (AdCSI) and from informal relationship (friends), i.e., 46 (36.8%) of respondents know first about AdCSI from the office (staffs) itself, 41(32.8%) said that they know first from their friends ,20(16%) from kebele administration, 7 (5.6%) of respondents reported that they know first from media, and the other respondents put different sources that inform them about AdCSI such as group members, parents, and others didn't remember how first they know about AdCSI.

More over, the training and support to clients given by micro finance institutions on aspects of business, entrepreneurial skill, marketing, book keeping etc could help the poor to manage their loan effectively and efficiently that can result a positive impact on the livelihood and poverty alleviation efforts. The efficiency in managing loans by borrowers did not only benefit the borrowers but also to the micro finance institution since borrower can repay their loan on time with out delay. The trainings and supports delivered by AdCSI in Lideta Sub City has two opposite responses by the sampled borrowers, i.e., more than half sampled respondents 73 (58.4%) reported that they have get some training that can help them to under take the kind of business they are involved. However, though 73 respondents said that they got training, it does not mean that the training is given only by AdCSI. Accordingly, 57 (54.6%) out of the total respondents who got the training said it was given by AdCSI, 15 (12%) out of 73 respondents said it was given by SMEs, and 1 (0.8%) said that the training was

given by other NGOs. On the opposite side significant portion of respondents 52 (41.6%) reported there was no any training that was given when they took a loan. Hence, the training and support with the financial service should be improved well to address all borrowers, especially to those urban poor who lack knowledge to undertake income generating activities. In addition, the training and support should be before and after the loan and there by to develop the skill of borrowers in managing their business. Then due attention should be made by AdCSI on credit plus packages so as to address all clients through the training; and the collaboration made by SMEs office to train borrowers should also be encouraged. Moreover, other intervening NGOs that can build the knowledge and capacity of poor borrower in income generating activities should also supported and acknowledged too for the facilitation of the program, as can be shown in the next table.

**Table 16:** Distribution of respondents to the credit plus program

<b>I. Have you ever received any formal training that helps you to under take the kind of business you are involved?</b>	<b>Number of respondents</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Yes	73	58.4%	58.4%
No	52	41.6%	100%
Total	125	100%	
<b>II. Who gave you the training?</b>	<b>Number</b>	<b>Percent</b>	<b>Cumulative</b>
AdCSI	57	78.1%	78.1%
SME	15	20.5%	98.6%
Others (NGOs)	1	1.4%	100%
Total	73	100%	

**4.3.7. Women empowerment:** - The other dimension of poverty alleviation role through micro finance program is its impact on women's empowerment. Women are usually the most favored targets of micro finance institutions. It is consistently proved that they are better at savings, repaying loans, and investing profits in their family (Vonderlack and Schreiner, 2000). AdCSI has put giving

priority to women in the provision of service as one of its objectives. In Lideta sub city, there are large number of women borrowers that engaged in the program. In 1999 E.C budget year the number of individual women borrowers were 807 out of the total 1324 borrower that accounts about 61% of the clients. Though the total out reach of the institution compared to the total population is not satisfactory, its effort to involve a higher number of women in the provision of the financial service is encouraging. How ever, provision of financial service for more women than men could not insure them in improving and changing their livelihood; hence whether women actually are making use of the loan themselves or still they are under the rule of their husband is one dimension for married women that require closer scrutiny. Apart from these, for married and divorced and/or unmarried women what additional benefits (than monetary benefits) encountered such as its impact on acceptance, power, decision making with in the community after using the service. Out of the total sampled (125) borrowers in Lideta sub city 70.4% were women. Thus, direct questions were posed to both married and/or divorced (unmarried) women to investigate the issue of empowerment impact of AdCSI service in the sub city that can be summarized as follows.

**Table 17:** Distribution of women respondents on aspects of empowerment

Description	Frequency	Percent	Cumulative.
<b>I. Are you living with your husband?</b>			
Yes	50	56.8%	56.8%
No	38	43.2%	100%
<b>II.Do you give the loan to your husband?</b>			
Yes, all	1	2%	2%
Yes, part of it	18	36%	38%
No, I use all my self	31	62%	100%
<b>III.Have you made a discussion with your husband before you took the loan?</b>			
Yes	47	94%	94%
No	3	6%	100%
<b>IV.What effects does bring taking loans from AdCSI have on your acceptance, status, power, decision making?</b>			
Increased very much	23	26.1%	26.1%
Slight increase	27	30.7%	56.8%
No change	38	43.2%	100%
Total	88	100%	

As can be shown from table 17; out of the total 88 women sampled respondents 50 of them live with their husband and 38 were living lonely. And out of 50 women respondents who live with their husbands 31(63%) of them reported that they use all the loan by themselves which have a positive impact on empowerment of women and their livelihood; however, 18 (36%) said they use it part of the loan themselves and give part of it to their husbands, and 1(2%) respondent said that she give all the loan she took to her husband that implies there is some lack of confidence on the borrowers to invest the loan and manage

by them selves. In addition, though 94% (47) of respondents out of 50 women said that they do made a discussion with their husbands to take a loan which can be taken as positive issue, 3 (6%) of respondents have reported that they took a loan with out discussing with their husband that can show their confidence to decide on their own issue. All women sampled borrowers (88) were asked the over all effect of micro finance program provided by AdCSI on aspects of acceptance, power, decision making. Thus, 38 (43.2%) respondents said they did not exhibit any change on the above aspects after using the service, 27 (30.7%) of respondents reported there is a slight increase in the aspects, and 23 (26.1%) of them said that higher increments resulted often using the micro finance program.

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

**Table 18:** Distribution of respondent according to challenges and opportunities

Description	Frequent	Percent	Cumulative
<b>I. Do you repay the loan you took on time?</b>			
Yes	107	85.6%	85.6%
No	18	14.4%	100%
Total	125	100%	
<b>II.State that you like about AdCSI service (opportunities)</b>			
Low interest rate	6	4.8%	4.8%
Availability of service closer to home	53	42.4%	47.2%
No collateral requirement	10	8%	55.2%
Fast service (less bureaucracy)	48	38.4%	93.6%
Group loan service	1	0.8%	94.4%
Sufficient loan size	4	8.2%	97.6%
Others (individual lending, different types of loan etc)	3	2.4%	100%
Total	125	100%	
<b>III.State that you dislike (challenges) about AdCSI service</b>			
Group lending	34	27.2%	27.2%
Smaller amount of loan size than required	9	7.2%	34.4%
Delay of service	6	4.8%	39.2%
High interest rate	32	25.6%	64.8%
Short repayment period	17	13.6%	78.4%
Strict repayment rule (every 15 days or a month)	12	9.6%	88%
Others	15	12%	100%
Total	125	100%	

According to table 18 among the total sampled respondents 85.6% (107) said they pay their loan on time and 18 (14.4%) of respondents said that they do face with some difficulties to repay their loan on time. Out of 107 respondents

who reported they pay their on time, only 49 respondents did pay from the profit they made 29 respondents pay some part from profit and the other part from other sources; and 29 respondents also reported that they fail to pay their loan on time, lack of money at repayment time is the main reason, and failure of group members plus the need of money for other purpose were additional reasons. In addition, borrowers were asked about the challenges mainly face to repay their loan. As a result, 45 respondents put shortage repayment period, 22 respondents reported loss in business, and 25 respondents also said high interest rate as a challenge.

Moreover, to single out the main challenges sampled borrowers were also asked to choose services they dislike in AdCSI. Accordingly, 34 (27.2%) respondents dislike group lending system, 32 (25.6%) of respondents dislike the interest rate, 17 (13.6%) respondents dislike short repayment period, 12 (9.6%) reported strict repayment rule is not their preference, and 15 (12%) put other services. The reason behind having large number of respondents that dislike group lending methodology can be due to the higher number of individual borrowers (106 out of 125 sampled borrowers) selected randomly. Hence, among the main challenges for clients can be ranked as high interest rate, short repayment period, and strict repayment rule followed by the institution. On the opposite side, sampled respondents were asked about the services they like (opportunities) among those provided by AdCSI. As a result, 53 (42.4%) of respondents admire (put as opportunity) the availability of service closes to home, 48 (28.4%) of respondents like the fast service (less bureaucratic) provided by the institution, 10(8%) of respondents like the loan service with out collateral requirement, and other services such as enough loan amount, low interest rate, and group lending services has chosen as liked services. In general, though the challenges and opportunities for clients in AdCSI service can differ from borrowers' perspective, we can put some visible challenges and opportunities put by the sampled borrowers in Lideta sub city. Hence, availability of service closer to home, fast service provided by the institution, loan with out collateral requirement are some opportunities for clients based on their preference.

#### **4.3.9. Group formation, credit operations, and saving**

**mobilizations:** -Lending to the poor is considered to be expensive and risky because of their low saving propensities and inability to provide collateral. Micro finance institutions, however, target the poor better since the joint liability compels these groups to be small and homogenous so that members have incentives to participate in selection, monitoring and ensuring the repayment of loans. Ideally, groups should be formed after assessing the situation and needs of the target group. This will enable the intervening micro finance institution to form groups for the unbanked poor, and undertake activities which are most needed for this section (Rajasekhar, 2004). Hence, in the study of the role of micro finance on poverty alleviation looking into the group formation process of the institutions will help to identify either its positive role or negative impact on the poverty alleviation strategy. In AdCSI, group formation process is made by the borrowers themselves and the institution give some training to group members before taking a loan. This methodology has influenced the institution to target the non poor who have better capacity to utilize credit, need individual lending method with collateral, and draft the efforts made by the institution to alleviate poverty. Thus it is not, there fore, surprising that the evidence presented in this research shows that in Lideta sub city there are only 4 groups that took a loan, out of the total randomly selected 125 borrowers, there are only 19 borrowers who took a loan through group lending methodology; and 88 borrowers rank them selves as a middle class, 112 borrowers were merchants and civil servants having mean monthly income and expenditure, 718.58 birr and 630.08 birr respectively. Thus, the poor group formation system complied with less attention given to it after 1995 E.C by the institution is resulted to target on non-poor urban clients.

Micro finance groups improve access of the poor to credit. Access to production credit enables them to under take income generating activities through which poverty could be reduced. It is believed that micro finance programs help the poor to address their problems in undertaking income generating activities such as inadequate access to skills, raw materials and

marketing. Hence, to evaluate their role on poverty alleviation with respect to their credit operations questions such as, do credit products meet client needs? Is there diversified client based and demand driven services, diversified terms and conditions? The answer for such questions can give an implication on credit operation policies and their impact on the poverty alleviation lesson. Regarding to AdCSI's credit operation it has a positive credit operation policy in terms of types of products, diversified terms and conditions. There are four types of loan products provided to borrowers; these are micro business loan, small business loan, micro lease, and housing loan. The institution also launch consumption loan recently which was at the early stage development of micro finance considered as unproductive loan. The loan size ranges from a minimum of 500 birr to individuals for micro business loan up to a maximum of 100,000 birr for cooperatives. The terms and conditions of loans also vary from one loan type to the other loan type; and it ranges from 12 months for term loans to 48 months for the housing loan. The availability of diversified loan type, loan size, loan term, and condition help the poor to choose the type that fit with its demand. The development of micro bank can also help the demand for some graduate clients who want a higher loan size. However, there are some limitations and weakness that need some improvements, i.e., there is poor client selection mechanism that neglect the targeted poor, the consumption loan that provided to government or non governmental workers is out weighting the other productive loans (40% of the total clients in Lideta sub city took loan for consumption, and 25.5% of the loan portfolio is for consumption loan). The arrangements and improvements on these aspects can help the institution to achieve its target of poverty alleviation.

Micro finance programs enable the poor to save through breaking the assumption that poor can not save. If the institutions are appropriately structured and provided demand oriented savings products, the poor will contribute savings. AdCSI provides voluntary, compulsory, and time deposit saving products to its borrowers and the public at large. The voluntary saving is composed of personal and group voluntary saving (borrowers and non borrower clients). AdCSI pays an interest rate of 4% per annum for the amount mobilized through saving.

Compulsory saving is a type of saving mandatory to borrowers only, this is to instill a modern, saving behavior to borrowers and at the same time to create investment reserve fund for on lending. Thus, clients are expected to contribute compulsory saving for an interest rate of 4% per annum. Though providing saving service to the poor could encourage the poor to have a saving behavior there should be transparent and pure information about the rate, importance, and objective of savings. In AdCSI there seems to be there is less promotional work and aggressive saving mobilization strategies to develop the behavior of saving of clients. For instance, in Lideta sub city among 125 sampled borrowers 5.6% of respondents did not know the rate. Hence, more promotional work should be done to succeed the saving strategy, and the interest rate paid (4%) to clients should rise to some extent compared to the lending interest rate (10 to 12%), though it is more than the minimum rate (3%) set by NBE.

# Chapter five

## Conclusion and Recommendation

### 5.1. Conclusion

The previous chapters provide information about micro finance it self, its practice, impact and role in urban poverty alleviation. The concepts, definitions and theories help the reader to understand micro finance programs. In addition, the historical development of the financial sector in Ethiopia in general and micro finance development in particular gives additional insight into their growth, out reach, legal frame work, and other factors that prevail within the country. Moreover, the primary data investigated and conducted in Lideta sub city branch office of AdCSI demonstrates a practical insight regarding the opportunities, challenges, and role of micro-finance practice in urban poverty alleviation within the sub city. Hence, based on the previous chapters and discussions made we can finalize all the findings in the following brief and precise points.

- ↳ Micro finance implies providing the poor with credit, savings, and insurance facilities to set up income generating activities, thereby increasing household income. The targeting and client selection mechanism then should gear towards addressing the poor. However, the information gathered from respondents in Lideta sub city shows that the poor and economically active tend to be ignored. The client profile clearly indicated that higher number of respondents (70.4%) are in the middleclass. 89.6% of the total respondents are merchants and civil servants. 70.4% of sampled borrowers have average monthly income ranging from 301 birr to 1200 birr and 66.4% of respondents have birr 301 to 1200 average monthly expenditure. The mean of average monthly income and expenditure for sampled respondents is birr 718.58 and 630.08 birr respectively. In addition, the number of borrowers with respect to total population of the sub city is meager; it accounts for only 0.45% in 1999 E.C. Thus, in both approaches, most of the sampled borrowers can be grouped as a middle class that implies the poor is not yet reached adequately.

- ↳ Provision of micro finance service for urban poor is aimed at enabling the poor to participate in economic activities; but due to the fungible nature of money borrowers can use the loan for non productive and non targeted activities like bridging the loan they had. Borrowers have different reasons to apply for a loan but the reason to take a loan is not the main issue but rather the use of the loan and what percent of the loan is invested is an important point in the utilization of credit. The investigation made supports that most of respondents use their loan for productive purposes. Out of the total sampled borrowers, 64% of respondents use the loan for productive purposes such as petty trade, textile, and wood work. In addition, the percent of loan used for the intended purpose also shows a positive impact, i.e., 68% of respondents use more than half of the entire loan they took for the intended purpose.
- ↳ Micro finance actually do not accessibly need to charge a subsidized interest rate, but accessible credit with quality service. Market based interest rates help the institution to improve sustainability, and enable expansion to reach more poor people. Significant number of sampled borrowers (36.8%) reported that the interest rate is very high and high, 47.7% of respondents said it is moderate, and only 10.4% respondents put the interest rate as low. Though the credit service provided is dominated by individual lending (with collateral), the interest rate is higher than the formal banks and that becomes questionable. The other factor that can affect poor borrowers is loan size irrespective of the business they made or intended to make. Out of the total sampled borrowers, more than half (61.6%) of respondents said the loan size is good enough, and 36% reported as smaller and low loan size.
- ↳ Simply developing an establishment of micro finance institutions in urban areas could not address the problem of poverty, thus, out reaching the poor and enabling them to use the loan for income generating activities is the primary concern. The investigation shows that there is a lack of integrated practice towards providing training by AdCSI, i.e., out of the total sampled borrowers 41.6% said they never received any formal training when they took the loan, but 58.4% respondents report on the other hand they received formal training that

helped them to undertake the kind of business they intended to be involved in. However, the training was not only given by AdCSI, i.e., out of 73 respondents who got training only 54.6% said the training was given by AdCSI. The promotional aspect is also another area that needs attention, i.e., only 36.8 % of sampled borrowers know about AdCSI from promotion by the institution.

↳ The other dimension of poverty alleviation role through micro finance program is its impact on women empowerment. AdCSI has given priority to women in the provision of financial services. In Lideta sub city during 1999 E.C budget year women accounted for 61% of total borrowers. The investigation also supports that out of the total sampled borrowers, 70.4% were women. However, outreaching women borrowers by involving a large number of women in the program could not be a guarantee that the full control of the resources is actually improving their situation. There is good control of resources by women in Lideta sub city of AdCSI clients, i.e., 62% of sampled married women respondents said that they use of the entire loan by themselves, and only one (2%) respondent report that she gave the entire loan she took to her husband. But with respect to the overall impact of AdCSI on empowerment such as acceptance, status, power, and decision making; the result was not very encouraging. Out of the sampled borrowers, a higher portion of respondents (43.2%) said they exhibit no change on the above aspects, 30.7% of respondents reported there is a slight increase, and 26.1% said that higher increments resulted after using the micro finance program.

↳ The diversification of services, loan terms, conditions, repayment period, and lending methodology has a positive relation to capture diversified poor clients. Group lending system of loaning is now becoming increasingly popular among many systems of lending across different nations, to improve the well being of the poor. Even realizing all the merits and demerits of group lending, AdCSI still has a poor practice of developing this lending methodology in both formation process and encouraging borrowers to form groups and corrective strategies are needed. In Lideta sub city there are only 4 groups that participate in the program and as a result out of 125 sampled borrowers, only 15.2% respondents have

taken a loan as a group. Apart from its poor group lending intervention, AdCSI has positive credit operation policy in terms and conditions. However, with these positive implications, it has some limitations and weakness that need corrective action, i.e., the poor client selection mechanism that neglects the low income earners, and out weighing of consumption loan in terms of number of clients and loan portfolio.

↳ Micro finance programs enable the poor to save through breaking the assumption that the poor cannot save. If the institutions are appropriately structured and provided demand-oriented savings products, the poor will contribute savings. AdCSI provides both voluntary and compulsory savings services, and it pays an interest rate of 4%. The savings operation policy of AdCSI is encouraging and large amount of savings are mobilized. However, the institution needs more promotional work to make the saving strategy a success and transparency about the rate paid should provided to borrowers.

↳ The task of provision of micro-finance is intended to reduce poverty level through enabling the urban poor to be active participants in income generating activities. In addition, it provides employment opportunities through helping the urban poor to be self employed. Accordingly, in Lideta sub city out of the total respondents' 62.4% respondents said that they show a change in their life, 23.2% respondents said there is no change due to the loan they took, and 12% of respondents reported it has partly positive and negative impact. Though most borrowers are mainly middle class the change in their life is encouraging. However, the employment opportunity it provides did not show a promising result, i.e., more than half (60.8%) respondents reported they did not hire employees, 23.2% said they hired one employee, and 15.2% reported they have 2 to 5 employees.

↳ Putting the opportunities and outcomes of micro-finance could not be a guarantee to conclude that it has only positive impact. AdCSI clients were asked about the challenges and opportunities that exist. Accordingly, among the main challenges were higher interest rates, short repayment period, strict repayment rules, etc. On the other hand, borrowers also indicated some opportunities, such

as service being close to home, fast service provided, loans without collateral and so on.

## 5.2. Recommendation

Based on the above conclusions, data analyzed, and problems identified in the previous chapters, the following recommendations, classified into three areas that address major players of the program, are put forward.

### ☞ **National government (National Bank of Ethiopia)**

- ↳ Creation of self-sustaining micro-finance institutions should be the primary task of government financial institution policies. This would be possible if the government provides appropriate legislative support for urban poor lending, encouraging NGOs to intermediate between financial institutions and urban borrowers; provision of selective guarantees indemnifying institutions against loan defaults.
- ↳ Government should use the micro-finance market for more efficient allocation of scarce national resources, i.e., when we look at the existing credit service of MFIs, it is delivered to the non-targeted urban people. Thus, the government should try to look to those urban poor through empowering them to take risks, and structure the over all economy to be conducive to greater income equality and growth.
- ↳ The overall policy relating to inputs and out puts, promotion of viable technologies through research that can help micro finance institutions to exploit the wider market available in the nation should be implemented. In addition, for borrowers (the public at large) supportive new activities, expansion of education and training, conducive legal frame work for the poor to practice through small and micro enterprises, so as to increase the risk taking nature and working capability in activities that benefit the poor.

### ☞ **Micro finance institutions (AdCSI)**

- ↳ Achievement of financial viability and self sufficiency in resources should be the principal objective of any financial institution. However, the institution (AdCSI) should at the same time increase its accessibility to the urban poor. Saving smobilization, efficient loan administration, better resource management,

reduction of defaults, innovative lending experiments, and improving range of services should be viewed in a broader context. Efficiency without benefiting and outreaching the urban poor will lead not to development but rather to higher delinquencies and low demand towards the services.

↳ Provision of significant information and development of the management efficiency is also important. Information relating to loans, deposits, interest rates charged, and repayment rate and time should be clearly explained to clients; and this would be possible if there is integrated and efficient management.

↳ AdCSI has a low number of clients that took loans based on group lending methodology, which results weak outreach to the urban poor. Thus, the institution needs to revise its group lending methodology, i.e. the institution should intervene in group formation process and try to develop the experience of other micro-finance institutions that show success. Client selection mechanism is also another area that needs further corrective strategies.

↳ AdCSI has some opportunities that should be encouraged, but borrowers also put some challenges such as higher interest rates, short repayment period, and strict repayment rules that need some corrective strategies. The institution is not recommended to charge a subsidized interest rates but market-based interest rates that encourage the poor to participate in this program.

↳ AdCSI's policy to give priority to women has a promising result in involving large numbers of women in the program. However, this policy by itself could not become a guarantee for women to break the gender gap. Hence a special supportive training on business marketing, book keeping and other that can empower them to actively participate in the program is needed.

↳ In general AdCSI should not only mainly concerned with disbursing large amounts of loan and mobilization of savings but as a development partner of the government, it should give attention to outreach to the urban poor who have lack of access to formal finance(banks) through providing different types of services, conditions and terms at reasonable interest rates. In addition, promotional activities that could address the urban poor; and formal trainings to empower the moral of the poor will help it to reach the urban poor and solve the default and

delinquency problems. The training given to borrowers by other institutions such as SMEs and NGOs should be welcomed by the institution.

#### ☞ **Borrowers (The public at large)**

- ☞ Borrowers should be able to view micro finance institutions as their partner in their own development instead of a benevolent and paternalistic external intervention. Hence, borrowers should try to invest their loan for the intended productive purpose to enhance productivity; and participating indifferent economic activities that can help them to repay their loan.
- ☞ Borrowers should be willing to participate and follow any formal training given by the institution, SME, NGOs on aspects such as formalities associated with institutional loans, effective management of finance, maintenance of assets created out of credit, and entrepreneurship development training. All these interventions can help them to become efficient and effective in mobilization of their loans.
- ☞ Last but not least, borrowers should respect the rules and regulations of the institutions particularly relating to repayment; and as citizens, they should know their responsibility and right to use the service. Moreover borrowers should try to change their attitude towards credit, and try to invest their loan on productive activities rather than bridging of other debts they had previously. Apart from the above, borrowers should try to practice cooperatively in a group fostering the motto of strength in unity.

In a nutshell, for the micro finance programs' partnership on poverty alleviation strategy to be a success, integrated and cooperated participation is highly needed between government, micro finance institutions, NGOs, and the public at large. Investigation and research in aspects of micro finance program by academic institutions, Association of Micro Finance Institutions, and others could also play their role on the poverty alleviation program.

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## **Annex. I**

### **Sample questionnaire of Amharic version**

በአዲስ አበባ ዩኒቨርሲቲ  
ቢዝነስና ኢኮኖሚክስ ፋካሊቲ  
በህዝብ አስተዳደር ትምህርት ክፍል የድህረምረቃ ፕሮግራም

"የብድርና ቁጠባ አገልግሎት በከተማ ድህነት ቅነሳ ላይ ያለው ሚና" በሚል ርዕስ ለሚደረግ ጥናት የተዘጋጀ መጠይቅ

የአገልግሎቱ ተጠቃሚ ለሆኑ የከተማ ነዎሪዎች የተዘጋጀ መጠይቅ

ከተማ: -----
ክ/ከተማ: -----
ወረዳ : -----
ቀበሌ : -----

የመጠይቅ ኮድ : -----
------------------

# በአዲስ አበባ ዩኒቨርሲቲ የህዝብና አስተዳደር ትምህርት ክፍል

አላማ:- ይህ መጠይቅ የተዘጋጀው በህዝብና አስተዳደር የድህረ ምረቃ ተማሪ ሲሆን ዓላማውም የብድርና ቁጠባ አገልግሎት በከተማ ድህነት ቅነሳ ላይ ያለው ሚና ለማጥናት ነው ። ስለዚህ ይህንን ግምት ውስጥ በማስገባት አሰራላጊውን ትብብር እንዲያደርጉ በትህትና እጠይቃለሁ። ለሚያደርጉልኝ ትብብር በቅድምያ አመሰግናለሁ።

መምሪያ :- እያንዳንዱ መጠይቅ በአንድ ሰው ብቻ መሞላት አለበት ። በሚመርጡት መልስ ላይ “✓” ይህንን ምልክት ይጠቀሙ

### I. የተጠያቂው አጠቃላይ መረጃ

1. ጾታ      ወንድ       ሴት
2. ዕድሜ      \_\_\_\_\_      ዓመት
  1. 18--35
  2. 35--55
  3. > 55
3. የትምህርት ደረጃ
  1. የ1ኛ ደረጃ ትምህርት ያጠናቀቀ / 1ኛ - 6ኛ/
  2. የ2ኛ ደረጃ ትምህርት ያጠናቀቀ / 6ኛ - 12ኛ/
  3. ከ2ኛ ደረጃ ትምህርት በላይ
  4. ማንበብና መጻፍ የሚችል / የቁስ ትምህርት /
  5. ማንበብና መጻፍ እማይችል
4. የቤተሰብዎ አባወራ / የቤተሰብ መሪ / ናት ?
  1. አዎ
  2. አይደለሁም
5. የቤተሰብ ብዛት በቁጥር      \_\_\_\_\_
  1. 1--4
  2. 5--10
  3. > 10
6. ሥራ      \_\_\_\_\_
  1. ነጋዴ
  2. መንግሥት ሰራተኛ
  2. የጉልበት ሠራተኛ
  3. ሌላ ከሆነ ይጥቀሱ \_\_\_\_\_

II. የተጠያቂው የኢኮኖሚ /የኑሮ/ አኳያ

1. እራስዎን በኢኮኖሚ አንጻር ምን ደረጃ ላይ ያስቀምጣሉ / የኑሮ ሆኔታ /
  1. ድሀ
  2. በጣም ድሀ
  3. መካከለኛ
  4. ሀብታም
2. የቤተሰብዎ አማካይ የወር ገቢ /በብር/ ----- ብር
3. የቤተሰብዎ አማካይ የወር ወጪ/በብር/-----ብር
4. ከዚህ በታች ለተዘረዘሩት ወጪዎች በወር ላይ የሚያወጡት በግምት ያስቀምጡ
  1. የምግብ ወጪ በወር -----ብር
  2. የትምህርት ወጪ -----ብር
  3. የልብስ ወጪ -----ብር
  4. የህክምና ወጪ -----ብር
  5. ውሃ/መብራት /ስልክ ወጪ በወር -----ብር
  6. ነጭ ጋዝ / እንጨት ለማገድ / በወር -----ብር
  7. ለማህበራዊ ወጪ / ጠበል፣ ሠርግ ወዘተ / -----ብር
  8. የቤት ኪራይ / የራስዎ ከሆነ ቢኪራይ ምን ያህል ያወጣል / -----ብር
  9. ሰራተኛ ካልዎት የወር ደመወዝ የሚከፍሉት -----ብር
  10. ለቤተሰብ / ለጓደኛ / ድጋፍ የሚልኩ ከሆነ በወር -----ብር

III. ስለ ብድርና ቁጠባ አጠቃላይ አገልግሎት

1. ስለ አዲስ ብድርና ቁጠባ ተቋም አገልግሎት እንዴት አወቁ / ሰሙ / ?
  1. ከቀበሌ አስተዳዳሪዎች
  2. እንድቀላቀላቸው ከጠየኳቸው የቡድኔ አባላት
  3. ከአዲስ ብድርና ቁጠባ አገልግሎት ቢሮ
  4. ከጓደኞቼ (ቤተሰቦቼ) የአገልግሎቱ ተጠቃሚ የሆኑ
  5. ከመገናኛ ብዙሀን (ሬድዮ፣ቴሌቭዥን)
  6. ከቤተሰቦቼ ( ከባለቤቱ ልጆቼ)
  7. በትክክል አላስታውሰውም
  8. ከሌላ ከሆነ ይጥቀሱ -----
2. የመጀመሪያ ብድር መች ወሰዱ? ----- ዓ.ም

3. የመጀመሪያ ብድር ለመውሰድ ምን አገላለጽ?

1. የነበረኝን የንግድ ተቋም ለማስፋፋት
2. የነበረኝ ተቋም ቀይራ ሌላ አዲስ ለመጀመር
3. አዲስ ንግድ ለማቋቋም
4. የሆነ ጠቃሚ ነገር እሰራበት አለሁ ብዬ ስለገመትኩ
5. ከሌላ የወሰድኩት ብድር ለመመለስ
6. በዛን ግዜ ላጋጠመኝ ችግር እንድፈታበት
7. ከባለቤቴ ጥገኝነት እንድላቀቅ
8. ለልጆቼ የትምህርት ክፍያ እንድከፍል
9. ከፍተኛ ችግር / የባለቤቴ ሞት / ስለገጠመኝ ይህንን ችግር ለመፍታት
10. ልጄ ወደ ውጭ ለመላክ
11. በአጋጣሚ ብድር ለመውሰድ አሰብኩ
12. ሌላ ከሆነ ይጥቀሱ-----

4. የመጀመሪያ ብድር ለምን ተጠቀሙበት?

- |   |  |
|---|--|
| 1. አነስተኛ ንግድ <input type="checkbox"/>     | 6. ሌላ ብድር ለመክፈል <input type="checkbox"/>     |
| 2. ጨርቃጨርቅ <input type="checkbox"/>        | 7. አላስታውሰውም <input type="checkbox"/>         |
| 3. የእንጨትና ብረት ስራ <input type="checkbox"/> | 8. ሌላ ከሆነ ይጥቀሱ----- <input type="checkbox"/> |
| 4. ለህንፃ ስራ <input type="checkbox"/>       |  |
| 5. ለምግብ <input type="checkbox"/>          |  |

5. ምን ያህል ብር ለቁጥር "4" ጥያቄ መልስዎ ተጠቀሙበት?

1. ሁሉም /100% /
2. ከግማሽ በላይ /  50% /
3. ከግማሽ በታች /  50% /
4. አላስታውሰውም

6. የወሰዱት ብድር / ከአ.ቤ.ቁ.ተ. / በጊዜው ሁሉንም ይመልሳሉ ?

1. አዎ                       2. አይደለም

7. ለጥያቄ ቁጥር"6" መልስዎ "አዎ" ከሆነ የሚመልሱት ብር ብድሩን ተጠቅመው ከሚያገኙት ትርፍ ነው?

1. አዎ ሁሉ
2. ሁሉንም ባይሆንም በክፍል
3. አይደለም ከሌላ ከማገኘው ጥቅም ነው
4. አላስታውሰውም

8. ለጥያቄ ቁጥር "6" መልስዎ "አይደለም" ከሆነ ምክንያቱ ምንድነው?

1. በግዜው ለመክፈል ብር አልነበረኝም

2. የቡድኔ አባላት መክፍል ስላልቻሉ የብድር ተቋሙ ሊቀበለኝ ስላልቻለ

3. ብሩ ለሌላ ጠቃሚ ጉዳይ ስለፈለኩት

4. ሌላ ከሆነ ይጥቀሱ \_\_\_\_\_

9. መጀመሪያ ላይ የነበራችሁ የቡድኑ አባላት ስንት ናችሁ? \_\_\_\_\_

10. ቡድናቸው አሁን ስንት አባላት አሉት? \_\_\_\_\_

11. የአሁኑ ቡድናችሁ እንዴት አቋቋማችሁት ?

1. የቀበሌ አስተዳዳሪዎች (ማህበራት የወጣት፣ የሴቶች) በቡድን እንድንቋቋም እረድተውን

2. የተቋቋሙ ቡድን አባላት ጠይቁ ስለተቀበሉኝ

3. የተቋቋሙ ቡድን ጠይቀውኝ ፍቃደኛ ስለሆንኩ

4. የ.አ.ብ.ቁ.ተ በቡድን እንድንደራጅ ስለረዱን

5. አላስተውለውም

6. ሌላ ከሆነ ይጥቀሱ \_\_\_\_\_

12. ለቁጥር "11" ጥያቄ መልስዎ "4" ከሆነ የተቋሙ ሚና ምን ነበር?

1. ድጋፍና ማቀላጠፍ ከዚህ ባሻገር በራሳችን ስምምነት ብቻ

2. ትንሽ ሚና ቢኖርም በአመዛኙ ግን ድጋፍ መስጠት ነበር

3. በብዛት ጫና ሲሆን ትንሽ የማሳመን ስራ ስርተዋል

4. ሌላ ከሆነ ይጥቀሱ \_\_\_\_\_

13. እስካሁን ምን ያህል ጊዜ ብድር ወስደዋል? \_\_\_\_\_

14. ብድር በሚመልሱበት ጊዜ በግዜው ለመክፈል ያጋጠሞት ችግር ምን ይመስላል ?

1. የብድር መመለሻ ጊዜ አነስተኛ መሆን

2. በስራ ላይ ኪሳራ ስላጋጠመኝ

3. የምክፍለው ወለድ ከፍተኛ መሆኑ

4. ሌላ ከሆነ ይጥቀሱ \_\_\_\_\_

15. ከአንዴ በላይ ብድር ወስደው ከሆነ ምክንያቱ ምን ነበር ?

1. ባለፈው የወሰድኩት ብድር ተጠቅሜ አትራፊ ስለሆንኩ የበለጠ ለመጠቀም

2. ያለፈው ብድር ጥሩ ባይሆንም ግን በቀጣይ ለማሻሻል

3. ያለፈው ብድር ሙሉ በሙሉ ብክሶርም ሌላ አዲስ ስራ ለመጀመር

4. የኑሮዬ ሁኔታ በብድር ተጠቃሚ መሆን ከጀመርኩ በኋላ በመሻሻሉ

5. ያገኘሁት ብድር ለግዜያዊ ጥቅም (ለምግብ ህክምና ወ.ዘ.ተ) ስለፈለኩት

6. ምንም ምክንያት የለኝም

7. ሌላ ከሆነ ይጥቀሱ \_\_\_\_\_

16. የሚወስዱት ብድር ምን ላይ እንደሚያውሉት እንዴት ወሰኑ ?

- 1. ያሉት አማራጮች በማጥናት
- 2. ካሁን በፊት ለምሳሌ-በት ስራ ለመጠቀም
- 3. ንደኞቹ /ጎረቤቶቹ የሚሰሩትን ለመስራት
- 4. ለባለቤቱ እንዴት እንደምሰራ በማማከር
- 5. በአጋጣሚ ነው የወሰንኩት
- 6. ሌላ ከሆነ ይጥቀሱ -----

17. ከአ.ብ.ቁ.ተ ብድር እያሎት ከሌላ / ከግለሰብ / ከ50.00 ብር በላይ ብድር ወስደው ያቃሉ ?

- 1. አዎ
- 2. አይደለም

18. ለቁጥር "17" ጥያቄ መልስዎ "አዎ" ከሆነ ምክንያቱ ምንድን ነው?

- 1. የወሰድኩት ብድር ለምሳሌው ስራ በቂ ስላልሆነ
- 2. ከአ.ብ.ቁ.ተ. የወሰድኩት ብድር ለመመለስ
- 3. ለቀን ፈጆታዬ ለመጠቀም
- 4. ድንተነተኛ ችግር (ወጪ) ስላጋጠመኝ (ሀመም)
- 5. ሌላ ከሆነ ይጥቀሱ -----

19. በአ.ብ.ቁ.ተ ያለው የወለድ መጠን እንዴት ይመለከቱታል ?

- 1. በጣም ዝቅተኛ
- 2. በጣም ከፍተኛ
- 3. መካከለኛ
- 4. ዝቅተኛ
- 5. ከፍተኛ
- 6. የወለዱ መጠን አላውቀውም

20. ከአ.ብ.ቁ.ተ የሚወስዱት የብድር መጠን ካልዎት የስራ እንቅስቃሴ አኳያ እንዴት ያዩታል ?

- 1. በጣም ትንሽ
- 2. ከጠየኩት ያነሰ
- 3. በቂ ነው
- 4. ከበቂ በላይ

21. በቡድን ወይስ በግል የሚሰጥ ብድር ይፈልጋሉ ?

- 1. በቡድን
- 2. በግል

22. ስለቡድን የብድር አገልግሎት ምን አመለካከት አልዎት ?

- 1. እጠላዋለሁ
- 2. ጥሩ ነው
- 3. ምንም ስሜት የለኝም

23. ለጥያቄ ቁጥር "22" መልስዎ "1" ከሆነ ምክንያቱ ምንድን ነው

- 1. የግል እንቅስቃሴ ስለማያበረታታ
- 2. እያንዳንዱ የቡድን አባል ለጠቅላላ ብድሩ ተጠያቂ ስለሚያደርግ
- 3. የቡድኑ አባላት ላይ አለመተማመንና ጥላቻ ስለሚፈጥር
- 4. ሌላ ከሆነ ይጥቀሱ -----

24. ከቡድናቸው አባል /አባላት/ ብድራቸውን መክፈል ያልቻሉበት አጋጣሚ አለ ?

- 1. አዎ
- 2. የለም

25. ብድር ስትወስዱ የሚሰጣቸው ብድር ምን ስራ ላይ ማዋልና እንዴት መጠቀም እንዳለባችሁ ስልጠና ይሰጣቸዋል?

- 1. አዎ
- 2. የለም

26. በጥያቄ ቁጥር "25" መልስ "አዎ" ከሆነ ስልጠናው በማን ይሰጣል ?

- 1. በአ.ብ.ቁ.ተ አ.ማ
- 2. በአነስተኛና ጥቃቅን ተቋማት ቢሮ
- 3. መንግስታዊ ያልሆኑ ተቋማት
- 4. ሌላ ከሆነ ይጥቀሱ -----

27. በአ.ብ.ቁ.ተ. የቡድን ቁጠባ አለዎት ?

- 1. አዎ ምን ያህል እንደሆነም አውቀዋለሁ
- 2. አዎ ግን ምን ያህል እንደሆነ አላውቀውም
- 3. ምንም የቡድን ቁጠባ የለኝም

28. የግል ቁጠባስ አለዎት? በፍላጎት ነው ወይስ በአስገዳጅ ?

- 1. አዎ በፍላጎቴ ነው
- 2. አዎ ግን በግዴታ ነው
- 3. ምንም የግል ቁጠባ የለኝም

29. በቤተሰብዎ የነገር ሁኔታ የብድሩ ተጠቃሚ ከሆኑ በኋላ የመጣው ለውጥ እንዴት ያስቀምጡታል?

- 1. በጣም ከፍተኛ አዎንታዊ ለውጥ
- 2. ጥሩ ለውጥ (ግን ግዚያው ለውጥ)
- 3. በግማሽ ጥሩ በግማሽ መጥፎ
- 4. ምንም ለውጥ የለም
- 5. ከነበረው የባለ ችግር ላይ ነኝ

30. ስለ አ.ብ.ቁ.ተ. ጥሩ የሚሉት አገልግሎት ካለ ይጠቁሙ

- 1. ዝቅተኛ ወለድ
- 2. ቅርብ የሆነ የብድርና ቁጠባ አገልግሎት
- 3. ምንም ቁሳዊ መያዣ ( COLLATERAL) አለመኖሩ
- 4. ቀልጣፋ አገልግሎት
- 5. የቡድን ብድር አገልግሎት

6 የብድሩ መጠን ጥሩ ስለሆነ

7. ሌላ ከሆነ ይጥቀሱ -----

31. ስለ ኢ.ብ.ቁ.ተ. የሚጠሉት (የማይፈልጉት) አገልግሎት ካለ ይጥቀሱ

- 1. የብድን ብድር አገልግሎት
- 2. የብድሩን መጠን አነስተኛ መሆን
- 3. ቀልጣፋ የብድር አረልግሎት አለመኖር
- 4. ከፍተኛ የወለድ መጠን
- 5. አጭር የብድር መመለሻ ጊዜ
- 6. ጥብቅ የሆነ የብድር አመላላጭ ህግ (በእያንዳንዱ ወር)

7. ሌላ ከሆነ ይጥቀሱ -----

32 ከኢ.ብ.ቁ.ተ በወሰዱት ብድር ተጠቅመው ባቋቋሙት ሰራ (ንግድ) ምን ያህል ሰራተኛ ቀጥረዋል (የቤተሰብ አባልም ቢሆን) ?

- 1. አንድ
- 2. ከሁለት እስከ አምስት
- 3. ከአምስት በላይ
- 4. ምንም የለም

33. በአጠቃላይ ስለ ኢ.ብ.ቁ.ተ ያልተገለፀ አዎንታዊ ይሁን አሉታዊ አስተያየት ካሎት በአጭሩ ይጥቀሱ -----

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## ለሴት ተበዳሪዎች ብቻ የተዘጋጀ መጠየቅ

1. ከባለቤትዎ ጋር ነው እሚኖሩት?
  1. አዎ
  2. አይደለም
  
2. ለቁጥር"1"ጥያቄ መልስዎ "አዎ" ከሆነ ከኢ.ብ.ቁ.ተ የወሰዱት ብድር ለባለቤትዎ ነው እሚሰጡት?
  1. አዎ ባለቤቴ ሁሉንም ብድር ይጠቀምበታል
  2. አዎ የተወሰነውን ለባለቤቴ እሰጠዋለሁ
  3. አይደለም ሁሉንም ራሴ ነኝ እመጠቀመው
  
3. ብድር ከመውሰድዎ በፊት ከባለቤትዎ ጋር ተመካክረዋል ?
  1. አዎ
  2. አይደለም
  
4. ከኢ.ብ. ቁ.ተ ብድር ከወሰዱ በኋላ በርስዎ ላይ ተቀባይነት፣ ተሰሚነትና ውሳኔ ሰጪነት ያመጣው ውጤት ምን ይመስላል?
  1. በጣም ጨምሯል
  2. በመጠኑ ጨምሯል
  3. ምንም ለውጥ የለውም
  4. እየቀነሰ ነው
  5. ሌላ ከሆነ ይጥቀሱ \_\_\_\_\_
  
5. በአጠቃላይ የኢ.ብ.ቁ.ተ. ተጠቃሚ መሆን ለሴቶች የሚያመጣው የተለየ ጥቅም (ውጤት) ካለ ይጥቀሱ \_\_\_\_\_
  
6. የኢ.ብ.ቁ.ተ አገልግሎት በሴቶች ላይ ያለው ተፅዕኖ ካለ ይጥቀሱ ? \_\_\_\_\_

## **Annex. II**

### **Sample questionnaire English Version**

ADDIS ABABA UNIVERSITY  
FACULTY OF BUSSINES AND ECONOMICS  
DEPARTEMENT OF PUBLIC ADMINISTRATSON  
MASTERS PROGRAM

This questioner is prepared to study "*the role of micro finance on urban poverty allocation*"

Questioner for urban residents who use the service

City:	-----
Sub City:	-----
District:	-----
Kebele	-----

Questionnaire code: -----
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**ADDIS ABABA UNIVERSITY**  
**DEPARTEMENT OF PUBLIC ADMINISTRATION**

**Objective:** - this questionnaire is prepared by student of Addis Ababa University masters program on public administration. Its objective is to study "*the role of micro finance on urban poverty alleviation*". Thus considering its importance you are kindly requested to give your collaboration and support and I would like to thank you in advance

**Direction:** - Each questionnaire should be answered by one respondent only.

Put a  mark on the box answer you choose.

**I. General information on interviewee**

1. Sex of respondent

1. Male

2. Female

2. Age \_\_\_\_\_

1. 18 -35

2. 35-45

3. > 55

3. Level of education

1. Illiterate

2. I can read and write (traditional school)

3. Elementary School (1-6)

4. Secondary School (6-12)

5. above secondary School

4. Are you the head of the house hold?

1. Yes

2. No

5. Number of family

1. 1-4

2. 4-10

3. > 10

6. Occupation:- \_\_\_\_\_

- 1. Merchant
- 2. Civil Servant
- 3. Daily Laborer
- 4. Other -----

## II .Socio economic condition of the interviewee

1. Your standard of living is

- 1. Poor
- 2. Absolutely poor
- 3. Middle class
- 4. Rich

2. Your average monthly income? ----- Birr

3. Your average monthly expenditure? -----Birr

4. Your expected monthly household's expenditure for the mentioned expenses.

- 1. Food expenditure ----- birr
- 2. Educational expense ----- birr
- 3. Expenditure for cloth ----- birr
- 4. Medical expense ----- birr
- 5. Water /electricity/ telephone ----- birr
- 6. Gas / fire wood /coal ----- birr
- 7. Social expense (Weeding /Tebel) ----- birr
- 8. House rent (if yours, expected rent) ----- birr
- 9. If you have servant monthly salary----- birr
- 10. Remittance (for friends, relatives) ----- birr

## III.About AdCSI general service

1. How do you know first about AdCSI?

- 1. From Kebele administration
- 2. From group members I have asked to join them
- 3. From AdCSI office (Staff)
- 4. From friends who use the service
- 5. From Media (TV, Radio)

6. From my parents (husband, son, wife)

7. I don't remember

8. If other specify-----

2. When did you take the first loan? ----- E.C

3. What is your reason to take a loan?

1. To expand my business

2. To change the business that I was doing in to another business

3. To open new business

4. I felt, that I can do something useful

5. To repay the debt I had taken from other sources

6. To solve serous problem of lack of money I faced that time

7. To be independent of my spouse

8. To pay educational fee for my children

9. I faced accidental problem (death of husband/ wife) and I decide to take

10. To send my daughter / son abroad

11. It was by chance that I started taking loan

12. Specify if other -----

4. For what was the first loan mainly used?

1. Petty trade

2. Garment

3. Construction work

4. For food consumption

5. To pay my debt I had

6. Specify if other -----

5. What percent have you use to your answer for question No. 4?

1. Entirely (100%)

2. More than 50%

3. Less than 50%

4. I don't remember

6. Did you repay your loan fully to AdCSI with out delay?

1. Yes

2. No

7. If your answer for No.6 is "yes" did you repay from the benefit you obtained from activities under taken with the help of the loan?

- 1. Yes, fully
- 2. Yes, but not all
- 3. No, it is from other sources
- 4. I do not remembers

8. If you answer for question No.6 is "No" what is the reason

- 1. I hadn't money to repay on time
- 2. Other members of my group did not repay; AdCSI did not accept me
- 3. I wanted to use the money for other more useful purpose
- 4. Others (Specify) -----

9. How many members did your group have when it was first established? \_\_\_\_\_

10. How many members do you have now in your group? \_\_\_\_\_

11. How do you form your group?

- 1. Kebele Administration (Association Youth, Women) helped us to form
- 2. I directly asked other groups members to join me, and they agreed
- 3. Formed group members asked me to join item, and I agreed
- 4. AdCSI staff helped us to form group
- 5. I do not remember
- 6. Specify if other-----

12. If your answer for question No.11 is "4" what was their role?

- 1. That of support and facilitation other wise it was on our agreement
- 2. largely of support but with some pressure
- 3. More of pressure, but limited persuasion
- 4. If other specify -----

13. How many times have you so far taken loans from AdCSI? \_\_\_\_\_

14. What is the main challenge to repay your loan on time?

- 1. Shorter repayment period (installment period)
- 2. Loss in my business
- 3. High rate of interest rate
- 4. Specify if other -----

15. If you took a loan more than once, what is the reason?

- 1. The first loan I took was profitable then to make more
- 2. The previous loan was not that good, but I want to improve on the subsequent loan.
- 3. Previous loan was a complete failure, but I want to start again
- 4. I found my life improving as a result of the loans I am taking
- 5. I need the loan to use for daily consumption
- 6. I didn't have any reason
- 7. Specify is other -----

16. How do you decide for what purpose will you use the loan?

- 1. Through studying the possible options
- 2. To use for the business I have already started
- 3. To do what my friends did
- 4. I consult my spouse what can I did
- 5. It is by accident I decide
- 6. Specify if other -----

17. Do you ever borrow money of more than Br 50.00 from other sources while you have loans from AdCSI?

- 1. Yes
- 2. No

18. If your answer for No.17 is "yes" why?

- 1. The amount I borrow from AdCSI was not enough for my business
- 2. To repay AdCSI's loan
- 3. To cover my daily use
- 4. To cover accidental expenses (like disease)
- 5. Specify is other -----

19. What do you feel about the interest rate on loan charged by AdCSI?

- 1. Very low
- 2. Very high
- 3. Good (Moderate)
- 4. Low
- 5. High
- 6. I don't know the interest rate

20. What do you feel about the amount of loan (loan size) given by AdCSI relative to your business?

- 1. Very low
- 2. Smaller than required
- 3. Good enough
- 4. More than enough

21. Which method of lending do you prefer (Group or individual)?

- 1. Group lending
- 2. Individual lending

22. What do you feel about group lending method?

- 1. I hate it
- 2. It is good
- 3. I don't have any feeling

23. If your answer for No.22 is "1" what is your reason?

- 1. It doesn't promote individual effort
- 2. It made every member liable for the loan
- 3. It brings distrust and disagreement among group members
- 4. Specify if other -----

24. Where there times when other members of your group did not repay their loan on time?

- 1. Yes
- 2. No

25. Have you ever received any formal training that helps you to undertake the kind of business you are involved in?

- 1. Yes
- 2. No

26. If your answer for No.25 is "yes" who gave you the training?

- 1. AdCSI
- 2. Small and micro enterprise office
- 3. NGOs
- 4. Specify if other -----

27. Do you have group saving in AdCSI?

1. Yes, and I don't know the amount

2. Yes, but I don't know the amount

3. No, don't have

28. Do you have individual saving? Is it by interest or pressure?

1. Yes, it is on my own interest

2. Yes, but it is due to pressure

3. No, I don't have

29. What can you say about the impact of AdCSI services on your house hold?

1. Very big positive impact

2. Good impact ( mainly temporary benefit)

3. partly positive, partly negative

4. No change at all

5. Negative impact

30. State that you like about AdCSI service

1. Low interest rate

2. Availability of service closer to home

3. No collateral requirement

4. Fast service (less bureaucracy)

5. Group lending system

6. Good enough loan size

7. Specify if other -----

31. Can you state things that you dislike in AdCSI?

1. Group lending

2. Amount of loan smaller than requested

3. Delay (bureaucracy) of service

4. High interest rate

5. Short repayment period

6. Strict repayment rule (every month)

7. Specify if other -----

32. How many employees (even family members employed) do you have in your business that started through the loan?

- 1. One
- 2. 2-5
- 3. More than 5
- 4. None

33. In general, specify if there is any positive or negative suggestion that you have which might not mentioned in the above.-----

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**For women borrowers only**

1. Are you living with your husband?

1. Yes

2. No

2. If your answer for No.1 is "yes" do you give the loan you took to your husband?

1. Yes, I give it all

2. Yes, I give part of it and use part of it on my own

3. No, I use all on my own

3. Have you made a discussion with your husband before you took the loan?

1. Yes

2. No

4. What effects does your taking loan from AdCSI have on your acceptance, status, power, and decision making within your community?

1. Increased very much

2. Slightly increase

3. No change

4. Decreased

5. In general, is there any positive impact (result) that women get from being users of AdCSI service, specify -----  
-----  
-----

6. Is there some negative impact (influence) that AdCSI have on women, specify -----  
-----  
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Thank you

# DECLARATION

I declare that this thesis is my original work and has not been presented for a degree in any university and all the sources of materials used for the thesis are duly acknowledged.

Name of candidate

**Abadi Afera**

Signature



Date

15 August 2022